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PRELIMINARY PROSPECTUS DATED JUNE 28, 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 authorized to sell such securities. No securities commission or any 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. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended. Accordingly, these securities may not be offered, sold or delivered in the United States and this prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States.

Initial Public Offering

ALUDRA INC.

**Minimum Offering of 450,000 Units (\$450,000)
Maximum Offering of 1,000,000 Units (\$1,000,000)**

A maximum of 1,000,000 Units and a minimum of 450,000 Units (the "Common Shares") of Aludra Inc. ("Aludra" or the "Corporation"), each Unit comprised of one common share ("Common Share") and one Series A Share Purchase Warrant ("Warrant"), each Warrant exercisable at \$1.25 per Common Share for a period of one year from the date which shall not be more than 30 days following the date on which the Ontario Securities Commission has issued a final receipt for this prospectus, are being offered (the "Offering") at a price of \$1.00 per Unit pursuant to an agency agreement between the Corporation and Hayes Bustin Securities Inc. (the "Agent"), dated •, 2000 (the "Agency Agreement"). The offering price of the Units was determined by negotiation between the Corporation and the Agent. The Corporation and the Agent have agreed to allocate \$0.99 of the offering price for each Unit to the Common Share and \$0.01 to the Warrant.

Price: \$1.00 per Unit

	Price	Agent's Fee ⁽²⁾	Net Proceeds to the Corporation ⁽³⁾
Per Unit ⁽¹⁾	\$1.00	\$0.10	\$0.90
Maximum Offering	\$1,000,000	\$100,000	\$900,000
Minimum Offering	\$450,000	\$45,000	\$405,000

- (1) Each Unit is comprised of one Common Share and one Warrant, each Warrant exercisable at \$1.25 per Common Share for a period of one year from the date which shall not be more than 30 days following the date on which the Ontario Securities Commission has issued a final receipt for this prospectus.
- (2) The Corporation will pay the Agent a commission of 10% of the sale price of the Units.
- (3) Before deducting the expenses of this issue estimated at \$50,000, including the preparation costs associated with this prospectus.

There is currently no market through which the Units may be sold and there is no assurance that an active trading market will develop. Purchasers may not be able to resell the Units purchased under this prospectus. However, the Agent will act as, or ensure that another dealer is acting as, market maker on the Canadian Dealing Network over-the-counter trading system for a period of at least eighteen months from the date of the receipt issued by the Ontario Securities Commission for this prospectus (the "Acceptance Date").

An investment in the Common Shares should be regarded as speculative. An investment in these Common Shares should only be considered by those persons who can afford a total loss of their investment. (See "Risk Factors").

Upon completion of the offering, the offering price per Common Share will exceed the net tangible book value per common share as at February 29, 2000 by \$0.91, representing a dilution factor of 92% for the minimum offering and \$0.87, representing a dilution factor of 88% for the maximum offering (See "Dilution").

Hayes Bustin Securities Inc., as agent, conditionally offers the Units, subject to prior sale, if, as and when issued by the Corporation and accepted by the Agent in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters on behalf of the Corporation by Sheldon, Huxtable, Barristers & Solicitors, Toronto, Ontario and on behalf of the Agent by Sui & Company, Solicitors, Toronto, Ontario. The Agent has agreed to use its "best efforts" to sell the Units offered hereby.

Subscriptions for the Units will be subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates for the Common Shares will be available for delivery at the closing, which is expected to occur on or about •, 2000, but in any event not later than •, 2000 (the "Closing Date").

Subscription funds will be held in trust by Equity Transfer Services Inc., pending closing of the offering. If the minimum offering is not subscribed for within 60 days of the date of this prospectus, the offering may not continue without the consent of applicable securities regulatory authorities and subscribers. If the minimum offering is not so subscribed and such consents are not obtained, the funds deposited representing the subscription proceeds received will be promptly returned to subscribers without interest or deduction.

AGENT:

Hayes Bustin Securities Inc.
6 Adelaide Street East
Suite 300
Toronto, Ontario
M5C 1H6

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PROSPECTUS SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and financial statements contained elsewhere in this prospectus.

Issuer: Aludra Inc. is an internet applications and technology services corporation. Aludra provides "total strategic digital solutions" for a broad range of integrated creative, entertainment, marketing, interactive leisure, electronic commerce and database services. See "Business of the Corporation."

Offering: Minimum: 450,000 Units
Maximum: 1,000,000 Units

Issue Price: \$1.00 per Unit

Gross Proceeds: Minimum: \$450,000
Maximum: \$1,000,000

Use of Proceeds: The estimated net proceeds to be received by the Corporation from this Offering, after deducting the fees payable to the Agent and the estimated expenses of the Offering, will be approximately \$850,000, assuming the maximum number of Units are sold, or \$355,000, assuming the minimum number of Units are sold. If the maximum number of Units are sold, the net proceeds will be used as follows: (i) as to approximately \$400,000, to develop and expand the Corporation's sales and marketing activities; (ii) as to approximately \$300,000, to hire computer professionals and buy new equipment; and (iii) as to approximately \$150,000, to create a reserve of funds for the possible acquisition of small and medium size consulting firms and for general working capital purposes.

If the minimum number of Units are sold, the net proceeds will be used as follows: (i) as to approximately \$200,000, to develop and expand the Corporation's sales and marketing activities; (ii) as to approximately \$100,000, to hire computer professionals and buy new equipment; and (iii) as to approximately \$55,000, to create a reserve of funds for the possible acquisition of small and medium size consulting firms and for general working capital purposes.

If more than the minimum but less than the maximum number of Units are sold, the net proceeds will be allocated between each of the above-noted programs in approximately the same proportions as indicated above. See "Use of Proceeds." The Corporation intends to spend the funds available to it as stated in this prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary.

Dividend Policy: The Corporation has not paid dividends on its common shares and has no plans to pay dividends in the foreseeable future. The payment of dividends in the future will depend upon the earnings and financial condition of the Corporation and such other factors as the Corporation's board of directors considers appropriate. See "Dividend Policy."

Risk Factors: Investment in the Common Shares should be considered highly speculative. There is currently no market for the Common Shares offered hereby and purchasers may not be able to resell them. An investment in the Common Shares is subject to a number of risk factors including that the Corporation is in the early stages of development and, accordingly, its business operations are subject to all the risks inherent in the establishment and maintenance of an expanding business enterprise, the Corporation's dependence on a small number of key management personnel, no dividend history and the need for further capital to finance the maintenance and expansion of its business. An investment in the Common Shares is also subject to a number of other risks factors specific to the Corporation's business, including the possible liability for downturns in clients' businesses. See "Risk Factors."

Subscribers for Common Shares will suffer an immediate dilution of approximately \$0.91 per common share being approximately 92% of the purchase price for the minimum offering and \$0.87 per common share being approximately 88% of the purchase price for the maximum offering. See "Dilution."

THE CORPORATION

Aludra Inc. was incorporated under the laws of Ontario by articles of incorporation dated June 24, 1997. By articles of amendment dated February 4, 2000, the Corporation changed its name to its current form. As of •, 2000, upon the filing of articles of amendment, the Corporation ceased to be a private company as such term is defined in the *Securities Act* (Ontario). The Corporation's registered and principal office is located at 1 Woodborough Ave., Toronto, Ontario, M6M 5A1.

BUSINESS OF THE CORPORATION

GENERAL

The Corporation is a technology services and Internet applications company which provides total strategic digital solutions for a broad range of integrated creative, entertainment, marketing, interactive leisure, electronic commerce and database services.

Aludra is comprised of three operating divisions:

- (i) Aludra Interactive Software Development;
- (ii) Aludra Studios, a full-service graphic design/animation house; and
- (iii) a complete end-to-end web-site design and development e-business solution.

Aludra began as a full-service graphic design and multimedia firm and expanded its services to include a total digital media solution for internet applications in 1998. The Corporation has designed, developed, programmed, produced, hosted and managed interactive multimedia and e-commerce web sites for client corporations. Aludra has early expertise in developing interactive web sites with high production and entertainment values that incorporate 3D animation and use cutting-edge web development tools such as Macromedia Flash and streaming audio/video technologies.

Aludra has also managed and produced successful corporate projects for the Internet, CD-ROM and DVD-ROM including the development, programming and production of interactive multimedia products such as catalogues, sales training and orientation aids and marketing materials as well as multimedia events and presentations.

Aludra's early beginnings focused on creating interactive leisure products. Momentum behind products continued to build with Aludra creating more than 60 CD-ROM titles that have been distributed to consumers in over 25 countries and translated into more than 10 languages. Through effective management of proprietary projects, co-productions and third party contracts, Aludra has become one of the leading independent suppliers to the consumer market.

As an early player in the field of interactive technology for all media, Aludra encountered many technological challenges. Out of necessity, it created proprietary source code, software engines and templates that enable and improve the performance of interactive technology for the Internet and removable media. This library of proprietary technology gives Aludra a strong competitive edge over upstart companies. Many of these assets have been licensed to third parties for creating non-competitive interactive products and services.

Modern organizations invest in information technologies to increase their productivity and profitability. Since it first took flight five years ago, e-commerce has come a long way. Forrester Research Inc., ("Forrester") of Cambridge, Massachusetts has put the value of worldwide business-to-business electronic commerce at U.S. \$43 billion in 1999. Forrester expects this amount to double every year in the future. It also estimates that average annual operating costs are U.S. \$206,000 for large promotional sites, U.S. \$893,000 for content sites, and U.S. \$2.8 million for transactional sites.

ALUDRA INTERACTIVE SOFTWARE DEVELOPMENT

Aludra's interactive software development division builds cutting-edge web-based development solutions for commercial clients. The Corporation provides strategic interactive solutions based on a commitment to develop web-site projects that are in alignment with client's business goals. As a Toronto-based leader in the interactive services arena, Aludra provides comprehensive management capabilities and high-end support in information system developments.

ALUDRA STUDIOS

Aludra Studios is a full service traditional animation studio specializing in the commercial production of character animation, special effects, moving illustration and animation combined with live action. Some of Aludra's accomplishments include:

- produced commercials for the Toronto Maple Leafs, Shoppers Drug Mart, TD Bank and Nissan;
- created TV entertainment high-end industrial work, CD-ROM design; and
- produce spots for Advanced Film & Video, Applecreek Communications and Hunter Packaging.

The Corporation's executive development design team works collaboratively, sharing ideas throughout the ongoing creative process. One key to the success of Aludra Studios is that it has developed a recognizable style. From cutting-edge graphics to comprehensive business solutions, Aludra Studios offers the tools and especially the artistic innovation necessary to meet a client's graphic design needs.

WEB-SITE DESIGN AND DEVELOPMENT E-BUSINESS SOLUTION

Aludra's web-site design and development e-business solution division provides its clients with the knowledge, the technology and the end-to-end execution required to digitally enable business processes and seamlessly translate brands to the digital environment. The Corporation's ability to extend the reach of e-businesses to multiple points of contact, across multiple platforms, devices and locations create long-term value and competitive advantage for its clients in the rapidly changing world of digital commerce. The Corporation addresses client business challenges with innovative, flexible and practical solutions that enables the Corporation to provide a diverse solution that is right for the client.

BACKGROUND

The Internet

The rapid growth in digital technology, the use of the Internet and e-commerce have fundamentally changed the way in which companies conduct business and interact with customers. Digital technology has created new business models, new ways of sharing knowledge and experience, more efficient ways to transact business and new channels through which to do so, direct ways of communicating with customers and employees and dramatically enhanced efficiencies of scale and scope. International Data Corporation ("IDC") estimates that the number of Internet users will grow from 159 million in 1998 to 510 million in 2003, and as a result, estimates e-commerce revenues to increase from approximately \$50 billion to more than \$1.3 trillion over the same period. As companies face increasing pressure to reinvent their business models for the digital economy, operate more efficiently and better serve customer needs, information flow both inside and outside an organization has become critical. However, the escalating cost and complexity of information technology and the shortage of in-house technical expertise required to implement technology-based solutions has led companies to increasingly rely on Internet service providers. This trend toward outsourcing and a focus by companies on their core business has driven the rapid growth of the Internet services market. International Data Corporation estimates that the market for Internet professional services worldwide will grow from \$7.8 billion in 1998 to \$78.6 billion in 2003, representing a compound annual growth rate of 59%.

In May 1998, IDC estimated that the number of Web users worldwide will grow from approximately 69.0 million in 1997 to approximately 320.0 million by the end of 2002. The Corporation believes that Internet growth will result from a number of factors, including the large and growing use of personal computers ("PCs") in the workplace and home, increasing reliance on the Internet by the business-to-business sector, advances in the performance and speed of PCs and modems, improvements in network infrastructure, easier and cheaper access to the Internet and increased awareness of the Internet among businesses and consumers. Jupiter Communications LLC ("Jupiter") estimates that the number of online households (households using e-mail, the Internet or a consumer online service) in the United States will grow from an estimated 15.2 million households in 1996 to 57.0 million households, representing over 50% of U.S. households, by 2002.

It is anticipated that online users will continue to grow as communications, cable and computer related companies begin to offer access to the Internet through home television sets via Web TV or cable. Several large communications companies have announced plans to acquire or invest in cable television providers with the goal of selling high speed online access and Internet phone service over existing broadband cable lines. Cable modems have the advantage of delivering data faster than telephone modems. In addition, a cable modem is always connected, thereby eliminating the need for a user to dial up access to the Internet. Forrester Research Inc. ("Forrester")

estimates that the number of homes in North America accessing the Internet with cable modems will grow from about 700,000 by the end of 1999 to approximately 13.6 million by the end of 2002.

The Corporation believes that a significant opportunity exists for online business-to-consumer and business-to-business trade. In May 1998, IDC estimated that the total value of goods and services purchased worldwide on the Internet grew from approximately \$296.0 million in 1995 to approximately \$32.0 billion in 1998 and that worldwide sales of goods and services on the Internet will grow to approximately \$426.0 billion by 2002. Industry analysts predict that the business-to-business sector will account for much of the growth of E-commerce over the Internet. Forester projects that in the United States, intercompany trade of hard goods over the Internet will reach \$31.3 billion in 1998 and will reach \$983.0 billion by 2003 (in each case excluding trade in utilities and petrochemicals).

The Internet has evolved into a unique marketing channel. By directly operating their own Web sites, Internet retailers can interact with customers in real-time by frequently adjusting their product mix, pricing and visual presentation. In addition, the global reach of the Internet allows E-tailers to build large, geographically-dispersed customer bases more quickly than traditional retailers and catalog marketers. Unlike traditional marketing channels, Internet retailers do not have the burdensome costs of a significant retail store infrastructure, the continuous printing and mailing costs of a catalog marketer or the store personnel or call center costs incurred by traditional retailers and catalog marketers.

The Internet offers many data management and multimedia features which enable consumers to search for products by category or brand. In addition, the Internet allows consumers to access a wealth of information, including reviews and competitive pricing and audio and video presentations which enhance static catalog formats. Internet retailers can more easily obtain demographic and behavioral data about their customers, providing them with greater direct marketing opportunities and the ability to offer a more personalized shopping experience. Internet retailers also offer consumers the convenience of home shopping and 24-hour-a-day, seven-days-a-week operations, available to any location, foreign or domestic, that has access to the Internet.

Many traditional retailers are compelled, because of store size and other factors, to limit the amount of inventory they carry at each store and focus on a smaller selection of faster-selling products. Online retailers are able to offer consumers a broader range of products because they have fewer space constraints and because they are often able to purchase products from suppliers only after products have been sold to the consumer. Online retailers can also both test market new products and re-merchandise existing products for sale, with greater speed and for relatively nominal cost.

BUSINESS STRATEGY

Aludra intends to be the leading Canadian strategic digital communications company. As a forward-thinking internet-based organization, the Corporation believes it will be able to establish itself as a high-profile brand service provider of "total" digital media marketing and communication solutions while maintaining uncompromising principles as the Corporation grows. To achieve this objective, the Corporation intends to pursue the following goals:

- Increase the awareness and perception of the Corporation's proprietary products and services through marketing.
- Focus on the total digital solution for the business-to-business and business-to-consumer market segments.
- Invest in new facilities to increase production volume, with an emphasis on talent.
- Enhance the work environment and compensation for employees.

Specific objectives to support these goals include:

- Continue to develop the quality of the Corporation's software applications.
- Monitor changes in competitive environments.
- Expand our marketing efforts to implement and achieve expansion goals.
- Engage the services of a nationally recognized advertising firm to increase brand awareness.
- Invest in advantageous acquisitions to expand services and operations incrementally through partnership with and acquisition of companies that deliver specialized knowledge, technical infrastructure, marketable skills and/or relationships with customers.

The digital economy is necessitating a new way of thinking and new approaches to business planning and design. The Corporation presents a framework that helps business leaders think about what kind of companies they want to become. This kind of strategic thinking is crucial to helping an organization find ways to get from where it is now

to where it wants to be in the future. All this strategic thinking is well and good but it is insufficient without the proper tools for implementation. As companies choose their strategic business design, the Corporation will help to develop and implement several key competencies.

The Corporation has divided its e-business future into two main business categories:

- (i) Companies organizing the delivery of their products and services and key business processes around the Internet.
- (ii) Established medium to large sized companies that are achieving a competitive advantage through deploying effective e-business strategies.

Business-to-commerce

E-commerce includes functionality needed by merchants to run an e-business, from 24-hour turnaround of online merchant ID's to browser-based store building and secure online-payment processing. In addition, the Corporation's solution addresses service providers operational needs by providing merchant self-provisioning functions. The hosted e-commerce solution is bundled with an Aludra business model that allows service providers to better match their revenues with their costs. In return for a portion of service-related revenues, the Corporation will deploy and support the solution. The Corporation's financial arrangement also includes co-marketing support from the Corporation for activities such as promotional campaigns and end-user seminars.

Business-to-business

In the heightened competitive world of managers, companies are faced with a two-pronged challenge: how to best serve their existing customers while developing innovative ways to obtain new clients. Technology integration has long been a goal of many firms, but today it is taking on a new urgency and is quickly becoming the key issue for managers. Not only are companies trying to integrate their internal systems, they also are linking to third parties in a continuous attempt to get to a straight-through processing environment.

The Corporation's systems are integrated software tools designed to automate business tasks, helping to replace guesswork about planning, scheduling and execution. Integrated solutions based on the proliferation of Internet technologies will only heighten the importance of sharing and exchanging important information. Management believes that the early adoption of the Corporation's technology will lead to stronger customer relationships and differentiate client business from their competitors.

Today, most IT management organizations are automating functions separately, without focusing on the need to streamline the various management functions across the entire business. To achieve the highest possible service levels, performance levels and internal business effectiveness and efficiency levels, managers must enhance the technologies that are enabling the IT management process. Management believes that by partnering with the Corporation, corporate clients will find themselves better able to compete more effectively for new business. The Corporation's technology represents a complete integrated set of software tools that fully automate the management process, giving corporate clients an integrated picture of their businesses and allowing them to spend more time managing clients and less time bogged down in administration reporting. In many industries, this invaluable concept of customer responsiveness is single handedly driving the growth.

PRODUCT STRATEGIES

The Corporation offers a full range of globally available proprietary products and services to meet client demands. State-of-the-art management technologies will allow the Corporation to share its collective knowledge and expertise and provide global service solutions to global clients. When this is coupled with common business processes and global account management, the result is a seamless service across all boundaries.

The Corporation is constantly developing new proprietary products and services to serve changing global markets. Aludra realizes that organizations are facing a range of significant business issues in the global and local marketplace, including information technology strategy and implementation. The Corporation intends to partner with clients to help them improve their strategy and operations. Each project undertaken will be approached by developing an in-depth understanding of the client's industry, leading to tailored solutions that meet the client's specific needs. The Corporation will provide a broad range of integrated end-to-end solutions, which comprise elements of strategy, operations, package implementation, systems integration and outsourcing. The Corporation feels that its clients will benefit from the availability of an extensive range of systems integration services including electronic commerce,

data warehousing, knowledge management, enterprise networks and systems architecture.

The Corporation's diverse experience sprang from management's philosophy that the advantage of digital content lies in its multiple purposes and should not be limited to a single delivery format. The Corporation designs interactive technology with future applications and delivery media in mind. For instance, the content on an interactive sales training CD-ROM handed out at a convention can also be made available on the company's web site, accessible to the sales force at any time, from anywhere in the world. This allows companies to underwrite the development costs of these projects and extend their brand identity to other media. The proprietary software code, engines and templates that are created for a project can be re-used for other projects and customized for other customers. The Corporation can also re-program and restructure existing content from one medium to another, such as the re-purposing of content from a successful CD-ROM product to a company's web site.

New Product Offerings

The Corporation is now taking into consideration the next digital medium: television. Aludra is one of the few companies that can claim a proficiency in the programming of web sites and advertising using Macromedia Flash. In addition to its Internet applications, Macromedia Flash is being employed in the emerging field of interactive television, including Microsoft's Web TV. A combination of what television does best (entertainment) and what the Internet does best (information), interactive television is considered the future of all television advertising.

As an early entrant in the development of interactive applications and advertising products using Flash technology, management feels that the Corporation has a competitive advantage in the e-business marketplace. Using these skills and taking advantage of the new business relationships that will be established, the Corporation's clients will create the first advertising content capable of moving directly from computer screens to television screens.

Creating New Revenue Streams for Customers

The Corporation's early efforts in Internet commerce have introduced the company to many overlooked revenue-generating activities made possible on the Internet, such as advertising and e-commerce. The Corporation has unique skills in building traffic to web sites by creating networks of web sites with an aggregated audience that is attractive to advertisers. The Corporation intends to sell advertising space on the network, creating revenue for the customer and collecting a commission for the ad sales, and has automated the ad insertion process so the procedure is relatively expense-free.

E-commerce is an area of interest for all sales organizations. The Corporation believes it can set up and manage an on-line store on behalf of clients and arrange all necessary services such as credit card transactions, fulfillment and shipping.

The results of the Corporation's web site tracking and the contents of customer databases combine to create comprehensive reports of consumer behavior that can be readily sold to marketing organizations. The Corporation's databases with comprehensive personal data, such as age, gender, home address and/or email address, can create valuable qualified lead lists that can be sold to direct marketers.

PRODUCTS

Some of Aludra's products include:

- *Animated Coral Reef* is a screen saver that allows users to choose from eight underwater scenes to stock with a selection of two dozen realistically animated sea creatures and underwater sound effects. Users can create their own underwater scenes or personalize the screen by adding scrolling text messages and import their favorite pictures to create custom backgrounds and wallpaper. Developed by Aludra Software and licensed to Expert Software in the USA, *Animated Coral Reef* was released in June 1998. According to PC DATA, the retail industry watchdog, *Animated Coral Reef* is the best-selling screen saver of the 130-screen saver titles on the market in 1999.
- *Circles of Time* is a graphic screen saver/reminder of birthdays, anniversaries, holidays and special occasions. As seasons change and holidays and events come and go, *Circles of Time* automatically changes monitors and mouse cursors to thematic scenes and graphics. *Circles of Time* rose to PC DATA's top position soon after its release in the summer of 1998 and the continued popularity of the product is evidenced by the holiday traffic to the Corporation's web site for downloads of free demos with seasonal themes.

- *Athena, Desktop Warrior* is a game and screen saver which transforms any computer into a mythical battleground and appears over any file for immediate on-screen fun.
- *Beat 2000* is a music creation, mixing and editing program which is available in 10 languages and is distributed in more than 35 countries. More than 1 million demo versions of the software have been downloaded from Aludra's web site at www.aludra.com.
- *Junior Beat* is a version of Beat 2000 created specifically for the children's CD-ROM market.
- *Aludra's Virtual Makeover* allows fashion-conscious people try out new hairstyles and colors using the models provided or their own imported photographs. Designed as a co-branding tool, it can be customized to showcase brand-name products and services. Updated hairstyles, new color choices and the latest fashion trends in accessories can be introduced each season and downloaded from a web site, increasing the shelf life of the product and enhancing the companies' relationship with their customers.
- *Microtrack* is a formula one racing car game that allows users to design their own challenging 3D-race track by creating hairpin turns and gravity defying loops.
- *Flyfishing* allows the user to get in the action against the big trophy fish, with high quality graphics that gives the user the feel of the bite and the pressure of reeling it in.

SERVICES

The Corporation offers a wide variety of services to its corporate clients. These include:

Web Site Design and Development

- Domain Name Acquisition and Registration
- Search Engine Registration
- Customized Design and Development
- Web Site Hosting
- Web Site Monitoring
- Email Servers
- Secure Servers
- Data Storage and Remote Retrieval
- Broadband Connections

E-Commerce Services

- Shopping Carts
- Inventory Control
- Warehousing
- Fulfillment Services
- Sales Reporting
- Data Analysis
- Merchant Accounts
- Cybercash
- On-line Auctions

Graphic Design and Animation

- 3D Interactive Sites
- 2D/3D Animation
- Scanning
- Image Optimizing
- Custom Graphics
- Image Conversion
- Video Conversion
- Digital Photography

Programming

- Custom Interfaces
- Database Design and Programming
- On-line Forms
- Chat Rooms
- Message Boards
- Search Engines
- Streaming Audio and Video

Marketing Services

- Ad Insertions
- Traffic Building
- Brand-extending Free Email Accounts
- Data Tracking and Reports
- E-mail Lists
- On-line Promotions
- Customer Service

Customized Multi-channel Multimedia Services

- Interactive CD-ROM/DVD-ROM
- Multimedia Presentations
- Promotional Premiums
- Training and Orientation Aids
- New Product Launches
- Product Demonstrations
- Digital Catalogues
- Business Plans and Strategic Plans
- IPO Prospectus and Presentations
- Annual Reports and Annual General Meetings

LONG-TERM GROWTH STRATEGY

The expanding markets offer growth opportunities and represent very significant competitive challenges in the future. To deal with the Corporation's expansion plans, Aludra views mergers and acquisitions as strong options for maintaining competitiveness. Management believes that rapid consolidation in vertical industries such as Internet technology based service providers, means companies must initiate mergers or buyouts of smaller firms to ensure the increased size, diversity of resources and broader industry "playing field" that facilitates regionalized leadership. Another reason for seeking merger-related synergies is improved financial performance.

The Corporation intends to seek suitable companies for merger and acquisition opportunities. In particular, Aludra is looking for a relationship with an Internet device provider in order to provide its customers the best possible telecommunications infrastructure. In addition, the Corporation intends to select an agency to promote its services, sell Internet advertising, market data lists and act as account executives and, above all, to provide excellent customer service.

Another possible avenue the Corporation intends to utilize in order to keep pace with growth involves strategic alliances, which are frequently the most efficient and effective means for achieving immediate access to the capital, talent, distribution channels, or development capabilities essential for maintaining market leadership. Often, a strategic alliance, which can be quickly formed and disbanded if necessary, is particularly well suited in the high-tech arena, where companies are able to penetrate new marketplaces through a quick infusion of talent. With this model, other companies would be recruited to work with the Corporation for the duration of a single project and then be released to go about their separate businesses, perhaps later rejoining for other projects.

A massive economic transformation has changed the way companies operate in business. It is more important than ever before to team up with business partners to cope with a complex, high-speed environment. Strategic alliances and networks are major issues in today's business. A company that is able to fully exploit its strategic partnerships will discover that alliances are a smart way to grow. To position itself more successfully in this networked economy, the Corporation intends to form a range of strategic partnerships to bring additional skills and knowledge in-house.

FACILITIES AND EMPLOYEES

The Corporation currently has 19 full-time employees and has recently relocated its corporate headquarters to a new office location in Toronto, as of January 1, 2000. These new facilities (approx. 30,000 sq. feet) will provide the Corporation with greater resources to facilitate its future growth plans.

MARKETING

Many of North America's medium to large size corporations are lukewarm to electronic commerce. In its 1999 e-Commerce Survey of Businesses, Andersen Consulting found that 70% of companies do not consider e-commerce a high priority. However, 56% of the companies surveyed expect to be more reliant on electronic commerce in five years. The Canadian Federation of Independent Business notes almost exactly the same thing - they are intrigued by the possibilities of e-commerce but are not ready to accept it. The Corporation's primary marketing task lies in the need to educate potential corporate clients toward the benefits of packaged solutions.

Net Research Methodology

Discrepancies may be noted between research figures. As Internet research is a young science discrepancies prevail, creating confusion and frustration among people and industries involved in the constantly evolving Internet marketplace.

There are three principal contributing factors:

1. Different definitions
2. Different methodologies
3. Hidden biases

In addition, there is a considerable amount of guesswork involved in measuring anything to do with the Internet. Unless otherwise stated, the figures published in this Prospectus are aggregated data calculated from a number of sources by eMarketer, a division of Advertising Age.

E-Commerce Services

According to an InformationWeek survey of information technology executives, 10% of IT budgets, on average, had been allocated to e-commerce or Internet projects for 1999. Some experts responded that this number was too small as the Year 2000 problem was bundled in with these statistics. Since the Y2K dilemma has been fully resolved, it is expected that those sizable IT budgets will be redirected to other IT projects, in large part toward the development and implementation of e-business solutions.

Large companies especially are shifting some of their transactions to the Web. Forrester predicts that 65% of companies with 5,000 or more employees will have some sort of e-commerce functionality on their Web site by the end of this year. At the start of this year, only 20% had e-commerce developments, but Forrester predicts the number will grow to 92% by 2002.

Web-based application developers are also seeing the growing interest in business-to-business e-commerce. As the number of e-commerce sites explodes, so do the revenue figures. Forrester figures indicate a projected increase from \$8 billion in 1997 to \$327 billion by 2002.

How e-commerce is used depends on the company's category and product offerings. For an existing 'brick and mortar' company, an e-commerce site should focus more on branding and supplementation of off-line offerings in traditional channels. Although the Internet is starting to be viewed as another channel for conducting business, cost advantages, such as automation, are being realized that are not offered in other media.

E-commerce is not only about transactions; consideration must also be given to Web applications that facilitate the sale. Marketers have used dealer-locators and sample catalogs for years as a way of driving consumers toward their stores or authorized resellers. More and more, intelligent applications are being used to gauge consumers buying habits and up-sell other items. Forrester refers to these types of customer-driven selling paths as "transactional content."

The Business-to-Business e-Commerce Market

Compared with their counterparts in the business-to-business world, consumer marketers must wrestle with countless complexities over advertising, pricing models, customer and employee psychology, new technology and, ultimately, estimates of how much investment and time is required before showing an initial online profit. Business-to-business is about niche targeting. Business procurement must be to be done as efficiently as possible and the Web's ability to generate endless levels of detail about the product is unparalleled.

Business-to-business sites deal with many customers online with whom they already have a relationship. Maintaining a commercial Web channel does not represent a new business but a realignment of existing operations newly reorganized for the convenience of customers while cutting costs.

For many business-to-business companies, the Internet's return is in generating sales and leads. Advertising is not a major issue and because there is no advertising revenue at stake, there is no confusion about the value of the audience measurement.

All the strengths inherent in business-to-business Web use can look like weaknesses in the consumer world. Mass marketers can reach only niche consumers, and have to advertise -- online or off-line -- to do so. The customer's demands for detailed levels of information and service are difficult and expensive to fulfill. And because of the mass-market outreach involved, ramping up a major Internet effort often adds new costs, rather than reducing traditional ones.

Marketing Strategy

Although there are a number of North American companies that provide total web development services, the vast majority of these companies have remained geocentric, catering to corporations in their immediate geographic area or expanding by opening locations in other cities and countries.

The Corporation estimates that thousands of small companies sprung up over the past four years that provide one or two e-business services such as web site design, web site hosting, database programming and e-commerce. The majority of these companies are the new economy equivalent of the "Mom and Pop Shop", sole proprietorships and partnerships that are owned and operated by people with technical knowledge in a limited area of e-business but little

experience in project management, budget tracking, trouble shooting, marketing or customer service.

Since digital technology can be transmitted anywhere in the world, the Corporation intends to market its services to medium and large corporations throughout North America. Initially, this will be made possible through the contracting of territorial account managers to market, sell and service customers in specific locations. As the Corporation identifies talented individuals and organizations in various regions, the Corporation intends to negotiate working relationships with local service companies to provide a local "face" for the Corporation in regions and local markets.

Geographic location and service specialties fracture the market for e-business and e-commerce. As a result, no single, reliable brand has emerged to dominate in this lucrative sector. It is a market that is looking for leadership and poised for consolidation.

Selling Strategy

The Corporation has sales and marketing experience gained from marketing, selling or licensing its interactive technology to co-producers, distributors and equipment manufacturers. The Corporation has never had to rely upon actively marketing its service division because referrals and recommendations from customers and associates have provided Aludra with a continuous flow of new opportunities. It is this demand for services that has enabled the Corporation to expand its operations and necessitated the hiring of additional personnel.

New opportunities are approached by Aludra with the focus of building a long-term relationship with a prospective customer. Typically, during an initial meeting, management will deliver a short presentation that outlines the services the Corporation offers. It is often during this initial meeting that the client comes to appreciate the comprehensive range of services the Corporation is able to provide to fulfill both their present needs and with an eye towards future considerations. Many times clients are unaware that the product they want developed can be easily converted to a variety of media.

The Corporation is introduced to prospective clients via the following means:

- (i) Word of Mouth - Recommendations from prior and existing customers and business associates, has been the best source of new business for the Corporation.
- (ii) Direct Marketing - Direct mail campaigns and 'cold calling' have been effective in securing contracts with advertising agencies, particularly for animation services. Although seemingly unrelated to the Corporation's e-business services, these contacts are important because they act as an introduction to the additional wide range of services that the Corporation offers.
- (iii) Repeat Business - While repeat business is the term most often used to describe customers who return for further services, in the Corporation's case this is better described as continued business. Aludra develops relationships with its customers that live beyond the initial contract. For many of its e-business customers, the Corporation operates like an out-of-house IT department for customers, providing advice, skilled personnel, hardware and software on an as-needed basis. Many organizations prefer this arrangement to the responsibility of operating a department that is not directly related to their core business and of which they have limited knowledge.
- (iv) Advertising - The Corporation's reputation within the IT community has reduced its need to advertise extensively to promote its services and as such the Corporation has indirectly benefited from the cost savings associated with a nominal advertising budget. However, as the Corporation expands and plans to serve customers in additional geographic regions, it will be required to increase significantly its advertising budget in order to raise awareness of the company in order to support its sales representatives and secure new business in those regions.
- (v) Web Site Traffic - The web sites that the Corporation has designed and developed act like billboards for its services. In addition, the Corporation's traffic building activities keeps the companies in contact with a growing number of web sites and the companies that operate them. This has led to many inquiries about the services the Corporation provides.
- (vi) Publicity and Media Relations - Management feels that the most cost-effective means of promoting the Corporation will be through publicity. The Corporation intends to contract with a public relations company to ensure its products, services and other initiatives receive media coverage. This will involve such

activities and tools as frequent media releases and press interviews, press conferences for product and service offering and wire services for mass media pickup.

Target Markets

Generally, companies without in-house expertise must cobble together contracts with several service providers in order to implement corporate digital strategies. Even large service corporations such as IBM have divided competencies into departments, often making it necessary for customers to contract out each activity separately. Often, when technology plans are implemented piecemeal, long-term corporate objectives can be confounded by differing professional opinions of service providers and jeopardized by incompatible, insufficient or inflexible technologies. The Corporation offers a full range of e-business and e-commerce services under one roof on an as-needed basis.

The Corporation has targeted medium and large organizations that do not have the in-house expertise to provide these services, however, the potential for service contracts for major corporations has not been ruled out. Many top 500 companies have sophisticated technological infrastructures in place for the cost-effective organization of their business operations; however, this proprietary technology and in-house expertise is not necessarily transferable to the Internet or other media.

Many large corporations look to their advertising agencies to manage their media work. Although most advertising agencies have new media divisions, they only manage such work which is either contracted or subcontracted out to suppliers. As a result, the Corporation has identified lucrative opportunities with marketing and advertising agencies and the company is actively pursuing these relationships.

Taking Advantage of Internet Trends

Aludra believes that there are a number of emerging Internet trends that are being discussed and implemented. The following trends represent a small cross-section of the services that the Corporation is capable of delivering.

First to Market, First in Market

The Corporation's experience in the development of cutting-edge technology and the operation of Internet ventures gives it a competitive edge in providing expert advice and services required to make a company an early leader in its category. Some of the largest successes on the Internet today began long before it was thought possible to make a single dollar off the Internet.

The brokerage firm, Charles Schwab, for example, began offering online stock trading to its clients back in 1984, fully a decade before the web's commercial birth. With this experience, Schwab was able to grow from 336,000 online accounts in 1995 to 1.6 million in May 1999. Auto-by-Tel, the online car network that arms prospective auto buyers with detailed pricing and product information and then matches them with a local dealership to close the sale, jumped online in 1995, two or three years before the market was lucrative and well ahead of competitors.

Movement from Large to Small Businesses

Although the Corporation is aware there is a demand for services from large corporate accounts and will pursue these opportunities, it is targeting small to medium companies, those having less than 100 employees or under \$5 million in sales. These enterprises number over 23 million in the United States, represent over 99% of all employers and employ 53% of the private workforce. They largely do not have the in-house expertise, infrastructure or resources to make the move to Internet ventures and e-commerce.

There is a large opportunity to promote the Corporation's services in this marketplace. Only 21% of small businesses are connected on a regular basis to the net, only 9% have their own web site and less than 5% conduct sales online. In contrast, the proportion of large corporations involved in various degrees on the Internet is much greater. The Internet will eventually serve as the great equalizer, giving smaller firms the opportunity to reach a truly global audience and at substantially reduced costs.

From Sellers to Buyers.

The Corporation plans to use its expertise in building Internet communities and interactive, animated worlds to take advantage of an important trend in e-commerce: building Internet trading hubs for the business-to-business market and the construction and management of virtual malls for consumers.

Increasingly, businesses are participating in, or creating, value-added trading centers. Business-to-business intermediaries are emerging and setting up vast e-commerce trading hubs to bring hundreds, even thousands, of buyers and sellers together for the purposes of exchanging information and transacting business. Consumer-directed businesses, too, will become increasingly involved in virtual malls, linking together consumers and the retail and service businesses that sell to them. These virtual malls will allow consumers to compare information on quality, color and style as well as price, delivery and payment terms -- all from the convenience of a single web site.

Specialized Content Aggregators

The Corporation is currently developing a software package that will seek out specialized content, index and file that data on a computer hard drive, all according to criteria suggested by the user. With the rise in demand for sites that provide aggregated content, this utility will be in demand by organizations wishing to set up such a service. The Corporation can also develop generic web site templates in which to organize the aggregated content, significantly reducing the startup cost of such a venture.

Typically, service companies that aggregate content for a specific client order do not have any understanding of, or relation to the industry or market segment their customer participates in, but they will know what they're customer is looking for. For example, a site can aggregate movie reviews providing moviegoers with multiple points of view from dozens of critics, newspaper reviewers, and maybe even a few fellow moviegoers as well. There are also opportunities to discuss the effectiveness and safety of drugs, the quality of travel destinations, etc.

Create Subscription-based Content and Services

The Corporation's success in creating interactive technology for consumers can now be used to create entertaining and informative content for commercial web sites that people would be willing to pay to access.

Just two years ago, it was impossible to consider charging a subscription price to enter a web site. People are now willing to pay for content that is high quality and sufficiently differentiated such that they can't get it elsewhere. The financial investor site, The Street.com, charges \$100 per annual subscription and currently has 17,000 subscribers. Analysts claim that every additional subscriber over 32,000 is 99% pure profit. Their subscription model works because their information is unique. They have carefully adapted their financial content and editorial style to match the attitude and needs of the online audience.

The Corporation can counsel customers in the nuances of creating pay-per-view content and produce unique interactive presentations of their special brand of content.

Vertical Portals

Using portals, such as Yahoo! when searching for a particular piece of information, forces users to download and wade through 87,462 links, 98% of which have no relevance to the question asked.

Vertical portals, or "verti-ports", that focus on a particular industry, subject matter or target group, resolve this. They will provide better value to their users, in the form of faster, more relevant and intelligent links and content that directly addresses the customer's area of interest. Amazon.com was one of the first true vertical portals because it concentrates solely on books.

The Corporation has already helped to create the world's first vertical portal specializing in the health and fitness industry, Actfit.com. Because of this experience, the Corporation has special knowledge of the challenges and opportunities for prospective customers who wish to position their site as an industry leader, linking together with hundreds of category-specific sites around the world.

The development patterns of other growing industries suggests that the emergence of verti-ports is a logical evolutionary step. Many industries typically begin with a large number of players, then see the emergence of a few consolidators, and finally mature into a mix of many niche businesses vying against a few large-scale players. In existing industries, a good example can be found in television broadcasting, where there has been a remarkable decrease in the influence and affluence of conventional networks due to the success of highly targeted specialty channels.

Multi-Channel Brand Building

The major online search engines index less than 40% of all web sites and this is the number one method of finding a site. A site that exists on the Internet alone is not going to cut through the clutter and establish a viable brand. Businesses must generate broad scale awareness, create industry buzz, announce the existence of their site, direct people to their specific website address and remind them to keep returning to the site. This can be accomplished through multi-channel marketing via Internet advertising and promotions, in conjunction with traditional media such as direct marketing, trade shows, print and electronic advertising.

While many companies understand how to approach their markets via these traditional sources, few know how to attract the attention of Internet users through on-line promotions, publicity and various traffic building tactics that the Corporation can arrange. In order for an Internet venture to succeed, especially advertisement-supported and e-commerce sites, these tricks of the on-line trade are integral.

Intranets

Businesses everywhere are constructing intranets, internal communications networks which channel the power of the net enabling them to reduce costs for purchasing, administration and human resource functions and allow for the free sharing of information, data and best practices across the enterprise.

Intranet spending will reach \$15 billion by the end of 1999. The market for Intranets and Extranets is growing rapidly and could eventually overtake dollars invested on the Internet itself.

COMPETITION

The market for the Corporation's products is new and rapidly evolving, and is expected to become increasingly competitive as current competitors expand their product offerings and new companies enter the market. The principal competitive factors in the Web-based, interactive electronic business solutions market include:

- adherence to emerging Web-based technology standards;
- comprehensiveness of applications;
- adaptability, flexibility and scalability;
- real-time, interactive capability with customers, partners, vendors and suppliers;
- integration with a variety of communications media;
- ease of use;
- ease of implementation;
- customer service and support; and
- price.

Although Aludra believes that it currently competes favorably with respect to these factors, there can be no assurance that the Corporation can maintain its competitive position against current and potential competitors, especially those with longer operating histories, greater name recognition and substantially greater financial, technical, marketing, management, service, support and other resources.

The Corporation currently faces competition primarily from in-house and third-party custom development efforts. The Corporation expects that these solutions will continue to be a principal source of competition for the foreseeable future.

The Corporation's current competitors include a number of companies offering one or more solutions for the electronic business solutions market, some of which are directly competitive with the Corporation's products. For example, Aludra's competitors include companies providing e-business and on-line customer management solutions, such as:

Silknet Software Inc. - Silknet Software Inc. is a leading provider of a comprehensive suite of integrated e-business solutions, delivers a broad range of Web-architected e-business and interaction applications. The company's customer-centric e-business applications and systems provide a Web-architecture business platform that develops both customer facing and enterprise facing solutions across multiple communications channels. The company's approach allows e-businesses to work with one vendor for their complete e-business customer communications needs.

Cyberplex Inc. - Cyberplex Inc. is one of North America's top Internet professional services companies that

aim at helping business leaders by creating a platform with one-stop Internet solutions. Its strategic consulting, advanced technologies and multimedia creative strength combine with their hosting applications to manage application environments. The company builds its strategic relations with clients by designing and operating customized e-business solutions whereby it offers a suite of configurable, customizable, transaction based, supply-side order management services to vendors of products in a variety of sectors.

Razorfish Inc. - Razorfish Inc. is a global digital solutions provider leverages digital technologies to help companies invent and reinvent the way they do business. The company delivers a complete set of end-to-end solutions including strategy, design, and technology. The company draws on skills in business strategy, marketing and branding, technology architecture, and user-centered design in developing a proprietary process for conceptualizing, planning, and executing solutions to complex business problems.

Microforum Inc. - Microforum Inc. is a leading North American digital business transformation company providing a range of electronic commerce, Internet strategy and integrated marketing, creative and database services. The company provides its clients with the knowledge, the technology and the end-to-end execution required to digitally enable business processes and seamlessly translate brands to the digital environment. The company's strength is in its ability to extend the reach of e-businesses to multiple points of contact, across multiple platforms, devices and locations to create long-term value and competitive advantage for its clients.

The Corporation also may face competition from systems integrators and consulting firms which design and develop custom systems and perform custom integration. Some of these firms may possess industry-specific expertise or reputations among potential customers for offering enterprise solutions to electronic business application needs. These systems integrators and consulting firms can be resellers of the Corporation's products and may engage in joint marketing and sales efforts with the Corporation. The Corporation relies upon these firms for recommendations of the Corporation's products during the evaluation stage of the purchase process, as well as for implementation and customer support services. These systems integrators and consulting firms may have similar, and often more established, relationships with the Corporation's competitors, and there can be no assurance that these firms will not develop, market or recommend competing software applications

CAPITALIZATION

The following table sets forth the capitalization of the Corporation as at May 31, 1999, June 26 2000 and June 26, 2000 after giving effect to the offering. This table should be read in conjunction with the financial statements and related notes thereto appearing elsewhere in this prospectus:

	Amount Outstanding as at May 31, 1999 (audited)	Amount Outstanding as at June 26, 2000 (unaudited) (1)	Amount Outstanding as at June 26, 2000 after giving effect to the Minimum Offering (unaudited) (2)(4)	Amount Outstanding as at June 26, 2000 after giving effect to the Maximum Offering (unaudited) (3)(4)
Debt				
Long-term debt (5)	\$166,662	\$183,333	\$183,333	\$183,333
Shareholders' Equity				
Share Capital				
Common Shares (authorized- unlimited)	\$100 (20 shares)	\$24,100 (6) (9,300,000 shares)	\$429,100 (9,750,000 shares)	\$924,100 (10,300,000 shares)
Retained Earnings (Deficit)	\$130,766	\$372,561	\$372,561	\$372,561
Total Shareholders' Equity	\$130,866	\$396,661	\$801,661	\$1,296,661
TOTAL CAPITALIZATION	(\$35,796)	\$213,328	\$618,328	\$1,113,328

Notes:

- (1) On June 22, 2000, the Corporation completed a subdivision of its common shares on the basis of 450,000 common shares for each outstanding common share.
- (2) After giving effect to the issue of the Common Shares and after deducting the Agent's fee of \$45,000.
- (3) After giving effect to the issue of the Common Shares and after deducting the Agent's fee of \$100,000.
- (4) Does not give effect to the exercise of any warrants issued under this offering.
- (5) See notes 3 and 4 to the audited financial statements of the Corporation appearing elsewhere in this prospectus for particulars of long-term debt.
- (6) On June 22, 2000, the Corporation issued 300,000 post-subdivision Common Shares from treasury for gross proceeds of \$24,000.

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

The following discussion and analysis of the Corporation's financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes forming part of this prospectus. The financial statements have been prepared based on Canadian generally accepted accounting principles ("GAAP") and represent results for the nine month period ended February 29, 2000 and the one year periods ended May 31, 1998 and 1999.

Overview

Incorporated in 1997, Aludra is a total digital solutions provider. The Corporation's strategic vision focuses on uniquely imaginative and innovative solutions for the local business professional, the entertainment and media communities, and global corporate clients. Aludra works across various platforms including the World-Wide-Web, DVD, CD-ROM, broadband networks, film/video, gaming platforms, online services, and kiosks.

The Corporation is comprised of three operational divisions: Aludra Interactive Software Development, providing a broad range of interactive software development; Aludra Studios, its full-service graphic design/animation house; and Aludra Web-Site Design and Development, providing complete end-to-end e-business solution and database services. The Corporation has operated as a full-service graphic design and multimedia firm since 1997 and expanded its services to include total digital media solutions for Internet applications in 1998 and comprehensive film and video editing facilities in 1999.

Results of Operations

Year Ended May 31, 1999 Compared to Year Ended May 31, 1998

For the year ended May 31, 1999 the Corporation's revenues were \$703,668 up from \$404,756 for the period ended May 31, 1998. This increase is due to the increased revenue stream from Aludra Studios and the Corporation's internet business. Earnings before income taxes reflected steady growth, resulting in net earnings of \$105,597 as compared to a gain of \$46,835 during the previous year. The new business model strengthened the Corporation's balance sheet and enabled Aludra to expand its facilities, targeted at Web-site development initiatives, upgrade software development tools and computer systems and acquire comprehensive film editing facilities.

Year Ended May 31, 1998 (Initial Year of Operations)

For the year ended May 31, 1998 the Corporation's revenue was \$404,756. Net earnings for the first year was \$46,835.

Nine Month Period Ended Feb. 29, 2000 Compared to the Nine Month Period Ended Feb. 29, 1999

Revenues increased to \$1,287,213, up from \$476,459 for the nine month period ended Feb. 28, 1999. Accelerated revenue growth in part reflected the additional revenue streams developed by the new operating divisions. Hiring of new technical and new management and sales staff led to an increase in operating expenses to \$929,210, up from \$400,211 in the previous nine month period. Earnings before income taxes reflected steady growth, resulting in net earnings of \$358,003 as compared to a gain of \$76,248 in the previous nine-month period.

Liquidity and Capital Resources

The Corporation has principal liquid resources, comprising cash and cash equivalents, receivables, prepaid expenses and marketable securities, of \$368,646 as of February 29, 2000.

Aludra believes that having strengthened its balance sheet it is in a strong financial position to expand its new developments and products/service offerings and have working capital to fund operations through the next 12 months.

MANAGEMENT OF THE CORPORATION

DIRECTORS AND OFFICERS

The following table provides the names of each of the current directors and senior officers of the Corporation,

together with their municipality of residence, position with the Corporation and current principal occupation:

Name and Municipality of Residence	Position	Principal Occupation
Aldo Baiocchi (1) Toronto, Ontario	Director, President, Chief Executive Officer and Secretary	Officer of the Corporation
Raymond Rabbani (1) Thornhill, Ontario	Director, Chief Financial Officer and Treasurer	Officer of the Corporation
Argirios Dimacopoulos (1) Toronto, Ontario	Director	President of Zeea Imports Limited
Jeff Cabral Toronto, Ontario	Vice President, Production/Animation	Officer of the Corporation

Note:

(1) Member of audit committee.

During the past five years all of the directors and officers have held the principal occupations noted opposite their respective names below.

Aldo Baiocchi - Mr. Baiocchi is the President and Chief Executive Officer of the Corporation. Between 1985 and 1997, Mr. Baiocchi was a founding member and Vice President of Microforum Inc., a publicly traded Canadian software developer and publisher. Mr. Baiocchi brings over twelve years of management and development experience in the digital technology industry. Mr. Baiocchi has also assisted in the management and development of over 60 CD-ROM titles, many of which were large projects marketed nationally and globally.

Raymond Rabbani - Mr. Rabbani is the Chief Financial Officer of the Corporation. Between 1994 and 1997, Mr. Rabbani was a self employed businessman. Previous to that, Mr. Rabbani was a controller for several Toronto area car dealerships. Mr. Rabbani is responsible for all planning, risk management, accounting, and tax affairs for the Corporation. Mr. Rabbani brings to Aludra more than 10 years experience in the financial management of growing businesses. A graduate of the University of Toronto with a degree in Commerce and Economics, Mr. Rabbani has extensive accounting background in the private sector.

Argirios Dimacopoulos - Mr. Dimacopoulos is currently and has been for the past five years, President of Zeea Imports Limited, a import company that currently imports olives and olive oil from Greece. Mr. Dimacopoulos was the treasurer and a director on the Greek town on the Danforth Business Improvement Area Committee.

Jeff Cabral - Mr. Cabral is the Vice President, Production/Animation for the Corporation. Between 1995 and 1997, Mr. Cabral was Producer and C.G.I. Project Manager for Microforum Inc. Mr. Cabral has been involved in the development of over 60 CD-ROM titles over the past three years. Mr. Cabral has diverse experience from initial concept to production and final distribution of all types of new media. He is also involved with various schools including York University, Seneca College School of Communication Arts Alumni Member, Sheridan College's School of Computer Animation Honorarium Member and guest lecturer. He is an active member of I.M.A.T., Canada's national interactive multimedia arts and technologies association. Mr. Cabral is also the Director of Industry Liaison for the Interactive Digital Content Creator Group, an association of the top leaders in Canada for digital media creation helping both the provincial and federal governments establish new policy for the digital media industries.

EXECUTIVE COMPENSATION

The following table shows the aggregate compensation paid by the Corporation in each of its last two (2) financial years to the persons serving as the Corporation's Chief Executive Officer and to all executive officers whose total salary and bonus exceeded \$100,000 per year (the "Named Executive Officers"):

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All other Compensation (\$) ⁽¹⁾
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Securities Under Options Granted (#)	Restricted Shares or Restricted Share Units (\$)	Long Term Incentive Plan Payouts (\$)	
Aldo Baiocchi President	1999	29,590	-	-	-	-	-	6,418
	1998	2,465	-	-	-	-	-	3,489

Notes:

- (1) These amounts represents lease payments and car loan interest payments paid by the Corporation on behalf of Mr. Baiocchi.

COMPENSATION OF DIRECTORS

The directors of the Corporation do not receive fees or other remuneration for serving as directors or attending meetings of the board of directors. Directors will be reimbursed for out-of-pocket expenses incurred directly in connection with the Corporation's business.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

No director or officer of the Corporation, and none of their respective associates and affiliates, is or has been indebted to the Corporation at any time during its most recently completed fiscal year.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, senior officer or principal shareholder of the Corporation, or associate or affiliate of any of the foregoing, has any other material interest, direct or indirect, in any transaction or in any proposed transaction within the past two years which has materially affected or will materially affect the Corporation

PRINCIPAL HOLDERS OF SECURITIES

As at the date hereof, the only persons who, to the knowledge of the Corporation, own of record or beneficially, directly or indirectly, securities of the Corporation carrying more than 10% of the voting rights attached to the outstanding voting securities of the Corporation, are as follows:

Name and Address	Security	Type of Ownership	Number of Securities	Percentage of Class before giving effect to this Offering	Percentage of Class after giving effect to the Minimum Offering	Percentage of Class after giving effect to the Maximum Offering
Aldo Baiocchi Toronto, Ontario	Common Shares	Direct	5,850,000 ⁽¹⁾	62.9%	60%	56.8%

Notes:

- (1) 1,125,000 common shares are owned by associates of Mr. Baiocchi.

The directors and senior officers of the Corporation, as a group, beneficially own, directly or indirectly, 7,200,000 common shares representing 77.42% of the common shares of the Corporation as at the date hereof. They will own approximately 73.85% and 69.9% after giving effect to the minimum and maximum offering, respectively.

PRIOR SALES

The following is a summary of the securities issued by the Corporation during the 12 month period preceding the date of this prospectus:

Date of Issuance	Number of Common Shares Issued	Issue Price Per Common Share	Aggregate Consideration	Nature of Consideration
June 24, 1997	20 ⁽¹⁾	\$5.00	\$100.00	Cash
June 22, 2000	300,000	\$0.08	\$24,000	Cash

Notes:

- (1) On June 22, 2000, the Corporation completed a subdivision of its Common Shares on a 450,000 for 1 basis.

ESCROW ARRANGEMENTS

Pursuant to the terms of an escrow agreement (the "Escrow Agreement") effective •, 2000, between the Corporation, certain shareholders of the Corporation and Equity Transfer Services Inc. (the "Escrow Agent"), a total of • common shares owned by • individuals, representing approximately •% of the common shares outstanding as at the date hereof were deposited with the Escrow Agent to be held in escrow. The Escrow Agreement provides for an automatic release of common shares escrowed thereunder at the following rates:

- (i) ten percent (10%) of the escrowed shares will be released on •, 200•;
- (ii) a further twenty percent (20%) of the escrowed shares will be released on each of the first, second and third anniversaries of the initial release; and
- (iii) thirty percent (30%) of the escrowed shares will be released on the fourth anniversary of the initial release.

Except as strictly provided for in the Escrow Agreement, none of the common shares held in escrow may be sold, assigned, transferred, pledged or hypothecated except with the prior written consent of the Ontario Securities Commission.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of Common Shares.

The common shares are without par value and entitle the holders thereof to receive notice of, attend and vote at all meetings of the shareholders of the Corporation. Each common share carries one vote at such meetings. Holders of common shares are entitled to dividends as and when declared by the directors. In the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, after payment of all outstanding debts, the remaining assets of the Corporation available for distribution will be distributed to the holders of common shares.

PLAN OF DISTRIBUTION

Pursuant to an agency agreement (the "Agency Agreement") dated •, 2000, between the Corporation and the Agent, the Corporation has agreed to issue and offer for sale a minimum of 450,000 Units and a maximum of 1,000,000 Units (the "Offering") through the Agent at an offering price of \$1.00 per Unit. Subscription funds will be held in trust by Equity Transfer Services Inc. pending closing of the Offering. If the minimum offering is not subscribed for within 60 days of the date of the final prospectus, the Offering may not continue without the consent of applicable securities regulatory authorities and subscribers. If the minimum offering is not so subscribed and such consents are not obtained, the funds deposited representing the subscription proceeds received will be promptly returned to subscribers without interest or deduction.

Pursuant to the Agency Agreement, the Agent has agreed to use its "best efforts" to sell the Units offered hereby. The Corporation has agreed to pay the Agent for its services in connection with the Offering a fee of \$0.10 per Unit subscribed for pursuant to the Offering (the "Agency Fee"). While the Agent has agreed to use its "best efforts" to sell the Units which are the subject of this Offering, it is not obligated to purchase any Units which are not sold. The Agency Agreement provides that, at the discretion of the Agent on the basis of, among other things, its assessment of the state of the financial markets, the Agent may terminate the offering and the obligation of subscribers to purchase Units will then cease.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates representing the Common Shares will be available for delivery at the closing of this Offering, which is expected to take place on or about •, or on such other date as the Corporation and the Agent may agree, but in any event not later than •.

USE OF PROCEEDS

The estimated net proceeds to be received by the Corporation from this Offering, after deducting the fees payable to the Agent and the estimated expenses of the Offering, will be approximately \$850,000, assuming the maximum number of Units are sold, or \$355,000, assuming the minimum number of Units are sold. If the maximum number of Units are sold, the net proceeds will be used as follows: (i) as to approximately \$400,000, to develop and expand the Corporation's sales and marketing activities; (ii) as to approximately \$300,000, to hire computer professionals

and buy new equipment; and (iii) as to approximately \$150,000, to create a reserve of funds for the possible acquisition of small and medium size consulting firms and for general working capital purposes.

If the minimum number of Units are sold, the net proceeds will be used as follows: (i) as to approximately \$200,000, to develop and expand the Corporation's sales and marketing activities; (ii) as to approximately \$100,000, to hire computer professionals and buy new equipment; and (iii) as to approximately \$55,000, to create a reserve of funds for the possible acquisition of small and medium size consulting firms and for general working capital purposes.

If more than the minimum but less than the maximum number of Units are sold, the net proceeds will be allocated between each of the above-noted programs in approximately the same proportions as indicated above. The Corporation intends to spend the funds available to it as stated in this prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary.

DILUTION

The following table sets forth the dilution for each Common Share calculated by reference to the net tangible book value attributable to each common share as at February 29, 2000, based on the audited balance sheet of the Corporation as at that date:

	<u>Minimum Offering</u>		<u>Maximum Offering</u>	
Issue price per Common Share		\$0.99		\$0.99
Net tangible book value per common share as at February 29, 2000	\$0.04		\$0.04	
Increase in net tangible book value per common share attributable to this offering	\$0.04		\$0.08	
Net tangible book value per common share after this offering	\$0.08	\$0.08	\$0.12	\$0.12
Dilution per Common Share		\$0.91		\$0.87
Percentage dilution in relation to the offering price		92%		88%

DIVIDEND POLICY AND RECORD

The Corporation has not paid any dividends to date and does not expect that earnings will be available for the payment of dividends in the foreseeable future. The board of directors of the Corporation will review this policy from time to time in the context of the Corporation's earnings, financial condition and other relevant factors.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts that the Corporation has entered into within two years prior to the date hereof are as follows:

1. The Agency Agreement as described under "Plan of Distribution."
2. The Escrow Agreement as described under "Escrow Arrangements."

Copies of the foregoing contracts may be inspected during normal business hours at the registered office of the Corporation at any time during the period of distribution of the securities offered hereby.

PROMOTERS

Aldo Baiocchi may be considered to be a promoter of the Corporation for purposes of the *Securities Act* (Ontario).

LEGAL PROCEEDINGS

There are no legal proceedings involving the Corporation or its property as at the date of this prospectus, and no proceedings are known by the Corporation to be contemplated.

RISK FACTORS

The securities described in this prospectus are highly speculative in nature. The following factors should be considered by prospective purchasers before purchasing the Units:

Marketability

There is no market for the common shares and there can be no assurance that any market will develop. Investment in the Corporation is therefore not suitable for any investors who may have to liquidate their investment on a timely basis and should only be considered by investors who are able to make a long term investment in the Corporation.

Key Personnel

The Corporation is currently dependent upon a small number of key management personnel and success will depend in large part on their judgment and expertise. The loss of the services of certain key management personnel, in particular, Aldo Baiocchi, Raymond Rabbani and Jeff Cabral, could adversely affect the performance of the Corporation.

Development Stage

The Corporation is still in the early stages of development and, accordingly, its business operations are subject to all the risks inherent in the establishment and maintenance of a developing business enterprise and the likelihood of the success of the Corporation must be considered in light of the problems, expenses, difficulties and delays frequently encountered in connection with the development of such a business, including, without limitation, the need to organize administrative and management functions.

Financing Risk

The Corporation may require further capital to finance the operation and expansion of its business. It is not possible to predict the timing or the amount of future capital requirements, if any, and no assurance can be given that the Corporation will be able to raise any additional funds required on satisfactory terms or at all.

No Dividends

No dividends have been paid to date by the Corporation and it does not anticipate paying any dividends to the shareholders of the Corporation in the foreseeable future, as all available funds are expected to be required to finance the development and expansion of the Corporation's business.

Competition

The Corporation competes with a large number of firms providing services similar to those provided by the Corporation. These firms consist of both larger, better capitalized firms with established reputations in the industry and smaller firms and independent operators with limited overhead. Both of these classes of competitors present an ongoing competitive pressure for the Corporation.

Dilution

Subscribers for Common Shares will suffer an immediate dilution of approximately \$0.91 per common share, being approximately 92% of the purchase price for the minimum offering and \$0.87 per common share, being approximately 88% of the purchase price for the maximum offering. See "Dilution."

Unlimited Authorization to Issue Stock

The Corporation's board of directors is authorized to issue an unlimited number of common shares without obtaining shareholder approval, thereby potentially diluting the percentage ownership of existing shareholders without their approval or consent. See "Description of Share Capital."

Each investor should carefully consider the foregoing risk factors and review with his/her professional advisors the tax and other implications of making an investment in common shares of the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are Daren, Martenfeld, Carr, Testa and Company, LLP, Chartered Accountants.

The registrar and transfer agent for the common shares is Equity Transfer Services Inc. at its principal office in

Toronto.

PURCHASERS' STATUTORY RIGHTS

Sections 71, 130 and 138 of the *Securities Act* (Ontario) (the "*Securities Act*") provide, in effect, that where a security is offered in the course of a distribution:

- (a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the dealer from whom the purchaser purchased the security not later than midnight on the second business day after the latest prospectus and any amendment to the prospectus offering such security is received or deemed to be received by the purchaser or his agent; and
- (b) if a prospectus together with any amendment to the prospectus contains a misrepresentation, a purchaser who purchases a security offered thereby during the period of distribution or distribution to the public shall be deemed to have relied on such misrepresentation if it was a misrepresentation at the time of purchase and subject to the limitations set forth in the *Securities Act*:

- (1) the purchaser has a right of action for damages against:
 - (i) the issuer or a selling security holder on whose behalf the distribution is made,
 - (ii) each underwriter required to sign the certificate required by Section 59 of the *Securities Act*,
 - (iii) every director of the issuer at the time the prospectus or amendment was filed,
 - (iv) every person or company whose consent has been filed pursuant to a requirement of the regulations under the *Securities Act*, but only with respect to reports, opinions or statements made by them, and
 - (v) every other person or company who signed the prospectus or the amendment to the prospectus, other than the persons or companies included in (i) to (iv) above;

but no action to enforce this right can be commenced by a purchaser more than the earlier of 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action or three years after the date of the transaction that gave rise to the cause of action; or

- (2) where the purchaser purchased the security from a person or company referred to in (i) and (ii) above or from another underwriter of the securities, he may elect to exercise a right of rescission against such person, company or underwriter, in which case he shall have no right of action for damages against such person, company or underwriter, but no action to enforce this right of rescission can be commenced by a purchaser more than 180 days after the date of the transaction that gave rise to the cause of action.

Reference should be made to the *Securities Act* for the complete texts of the provisions under which the foregoing rights are conferred. The foregoing summary is subject to the express provisions thereof.

Aludra Inc.
(formerly Aludra Software Inc.)

Financial Statements

**For the Year Ended May 31, 1999, the Period from Date of Incorporation
(June 24, 1997) to May 31, 1998 and the Nine Month Periods Ended
February 29, 2000 and February 28, 1999**

AUDITORS' REPORT

To the Shareholders of
Aludra Inc.

We have audited the balance sheets of **Aludra Inc.** (formerly Aludra Software Inc.) as at **May 31, 1999 and 1998**, and the statements of earnings and retained earnings and cash flows for the year ended May 31, 1999 and the Period from Date of Incorporation (June 24, 1997) to May 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at **May 31, 1999 and 1998** and the results of its operations and cash flows for the year ended May 31, 1999 and the Period from Date of Incorporation (June 24, 1997) to May 31, 1998, in accordance with generally accepted accounting principles.

December 13, 1999 (except for note 12 which is as of June 28, 2000)

Aludra Inc.

(formerly Aludra Software Inc.)

Balance Sheets

	Note	Feb. 29, 2000	May 31, 1999	May 31, 1998
(unaudited)				
Assets				
Current				
Cash		\$ 66,902	\$ 56,762	\$ 120,545
Marketable securities		53,621	-	-
Accounts receivable		232,679	72,655	9,312
Prepaid expenses and sundry assets		15,444	7,163	2,478
Income taxes recoverable		-	100,528	35,409
		368,646	237,108	167,744
Capital assets	2	261,815	128,535	137,258
		\$ 630,461	\$ 365,643	\$ 305,002
Liabilities				
Current				
Accounts payable and accrued liabilities		\$ 59,980	\$ 68,115	\$ 36,814
Income taxes payable		33,425	-	-
Deferred revenue		-	-	86,200
Long-term debt	3	24,369	72,781	75,224
Shareholder loans	4	58,143	84,224	53,314
		175,917	225,120	251,552
Long-term debt	3	49,085	9,657	6,515
Shareholder loans	4	32,798	-	-
		257,800	234,777	258,067
Shareholders' Equity				
Capital stock	5	100	100	100
Retained earnings		372,561	130,766	46,835
		372,661	130,866	46,935
		\$ 630,461	\$ 365,643	\$ 305,002

See accompanying notes.

2.

Aludra Inc.

(formerly Aludra Software Inc.)

Statements of Earnings and Retained Earnings

	Nine Months Ended		Years Ended	
	Feb. 29, 2000	Feb. 28, 1999	May 31, 1999	May 31, 1998
	(unaudited)	(unaudited)		
Sales	\$ 1,287,213	\$ 476,459	\$ 703,668	\$ 404,756
Expenses				
Advertising, promotion and travel	46,374	17,181	40,106	60,398
Interest	6,212	10,327	13,301	8,734
Occupancy costs	63,822	36,118	48,841	22,682
Office and general	64,882	57,308	67,542	31,075
Professional fees	47,943	31,365	46,768	21,422
Research and development	132,712	1,240	45,115	48,528
Salaries and benefits	521,622	215,748	292,700	143,661
Amortization	45,643	30,924	43,698	21,421
	929,210	400,211	598,071	357,921
Earnings before income taxes	358,003	76,248	105,597	46,835
Income taxes	116,208	15,644	21,666	-
Net earnings	241,795	60,604	83,931	46,835
Retained earnings at beginning of period	130,766	46,835	46,835	-
Retained earnings at end of period	\$ 372,561	\$ 107,439	\$ 130,766	\$ 46,835

See accompanying notes.

Aludra Inc.

(formerly Aludra Software Inc.)

Statements of Cash Flows

	<u>Nine Months Ended</u>		<u>Years Ended</u>	
	<u>Feb. 29, 2000</u>	<u>Feb. 28, 1999</u>	<u>May 31, 1999</u>	<u>May 31, 1998</u>
	(unaudited)	(unaudited)		
Cash flows from operating activities				
Net earnings for year	\$ 241,795	\$ 60,604	\$ 83,931	\$ 46,835
Add item not affecting cash				
Amortization	45,643	30,924	43,698	21,421
	287,438	91,528	127,629	68,256
Changes in non-cash working capital items				
Maketable securities	(53,621)	-	-	-
Accounts receivable	(160,024)	(55,426)	(63,343)	(9,312)
Prepaid expenses	(8,281)	(4,022)	(4,685)	(2,478)
Income taxes payable	133,953	(66,752)	(65,119)	(35,409)
Accounts payable and accrued liabilities	(8,135)	(1,516)	31,301	36,814
Deferred revenue	-	(86,200)	(86,200)	86,200
	191,330	(122,388)	(60,417)	144,071
Cash flows from investing activity				
Purchase of capital assets	(90,078)	(15,696)	(27,715)	(137,079)
Cash flows from financing activities				
Shareholder loans	6,717	(2,596)	30,910	53,314
Long-term debt	(97,829)	5,876	(6,561)	60,139
Issuance of capital stock	-	-	-	100
	(91,112)	3,280	24,349	113,553
Increase (decrease) in cash during period	10,140	(134,804)	(63,783)	120,545
Cash at beginning of period	56,762	120,545	120,545	-
Cash (bank indebtedness) at end of period	\$ 66,902	\$ (14,259)	\$ 56,762	\$ 120,545
Supplemental Disclosure				
1. Cash paid for interest	\$ 6,212	\$ 10,327	\$ 13,301	\$ 8,734
2. The company acquired capital assets as follows:				
Cash paid	\$ 90,078	\$ 15,696	\$ 27,715	\$ 137,079
Financed by capital lease obligations	88,845	-	7,260	21,600
Aggregate cost	\$ 178,923	\$ 15,696	\$ 34,975	\$ 158,679

See accompanying notes.

Aludra Inc.

(formerly Aludra Software Inc.)
Notes to Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives at the following annual rates:

Furniture & equipment	- 20%, declining balance basis
Automobile	- 30%, declining balance basis
Computer equipment	- 30%, declining balance basis
Leasehold improvements	- straight-line over the lease term

Revenue Recognition

Revenue is recognized as services are performed. Commitments for future services are deferred until the service is provided.

Foreign Currency

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

Marketable Securities

Marketable securities are recorded at cost. The market value of the securities at February 29, 2000 was \$47,101.

Use of Estimates

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

Research and Development Expenditures

Research costs, other than capital expenditures, are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles for deferral and amortization. The Company has not deferred any such development costs to date. Research and development costs are reduced by related investment tax credits.

Aludra Inc.

(formerly Aludra Software Inc.)
Notes to Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Future Income Taxes

The Corporation has elected to adopt the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. This change in reporting was applied retroactively and does not have a significant impact on net earnings for prior periods.

2. CAPITAL ASSETS

	Cost	Accumulated Amortization	February 2000	Net May 1999	May 1998
Furniture & equipment	\$ 61,651	\$ 13,789	\$ 47,862	\$ 28,448	\$ 20,605
Automobile	19,825	10,594	9,231	11,910	17,014
Computer equipment	286,102	86,130	199,972	88,177	99,639
Leasehold improvements	5,000	250	4,750	-	-
	\$ 372,578	\$ 110,763	\$ 261,815	\$ 128,535	\$ 137,258

Included in furniture & equipment and computer equipment are assets under capital leases with net book values of \$15,197 and \$79,654 (1999 - \$6,534 and \$12,977; 1998 - \$NIL and \$18,538) respectively.

3. LONG-TERM DEBT

	2000	1999	1998
Royal Bank Small Business Loan, bearing interest at prime plus 3%	\$ -	\$ 67,286	\$ 67,591
Various capital lease obligations, bearing interest at rates from 7.9% to 17.8%	73,454	15,152	14,148
	73,454	82,438	81,739
Current portion	24,369	72,781	75,224
	\$ 49,085	\$ 9,657	\$ 6,515

Aludra Inc.

(formerly Aludra Software Inc.)
Notes to Financial Statements

3. LONG-TERM DEBT (Cont'd)

Combined future minimum payments from May 31, 1999 are as follows:

2000	\$	74,580
2001		3,201
2002		1,278
2003		1,383
2004		1,996
	\$	82,438

4. SHAREHOLDER LOANS

The shareholder loans are non-interest bearing and due on demand. A portion of the shareholder loan in the amount of \$58,814 has been postponed to and in favour of a lessor's long-term debt obligation described in Note 3.

5. CAPITAL STOCK

	2000	1999	1998
Authorized unlimited common shares			
Issued 20 common shares	\$ 100	\$ 100	\$ 100

6. CREDIT FACILITY

The Company has available a revolving credit facility to a maximum of \$50,000. Advances against the facility bear interest at prime plus 2.5%, are due on demand and are secured by a general security agreement covering all company assets.

7. INCOME TAXES

The Company recognized the benefit of approximately \$65,000 (1999 -\$121,350; 1998 - \$35,400) of investment tax credits resulting from research and development expenditures incurred in the year. The benefits have been recorded as a reduction of the related expenses on the statements of earnings and retained earnings .

Aludra Inc.

(formerly Aludra Software Inc.)
Notes to Financial Statements

8. COMMITMENTS

The company is committed to various leases on premises and equipment. Minimum lease payments from May 31, 1999 are required as follows:

2000	\$	77,422
2001		91,539
2002		95,164
2003		86,922
2004 and subsequent		123,139
	\$	474,186

9. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

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

10. FINANCIAL INSTRUMENTS

The carrying values of accounts receivable, accounts payable and accrued liabilities and shareholder loans approximate fair values due to the relatively short term maturities of these instruments. The fair value of the bank loan payable is estimated to approximate its carrying value because it bears interest at a floating rate. The fair value of capital lease obligations has not been calculated.

Virtually all of the company's financial assets and liabilities are with parties in the software and software development industries and are subject to normal industry credit risks.

11. COMPARATIVE FIGURES

The comparative figures are for the period from the date of incorporation (June 24, 1997) to May 31, 1998.

Aludra Inc.

(formerly Aludra Software Inc.)
Notes to Financial Statements

12. SUBSEQUENT EVENTS

On June 22, 2000, the Corporation completed a subdivision of its common shares on the basis of 450,000 common shares for each outstanding common share. Immediately following this subdivision, the Company issued 300,000 common shares from treasury for proceeds of \$24,000.

On June 28, 2000, the Company filed a preliminary prospectus with the Ontario Securities Commission to offer for sale a minimum of 450,000 and a maximum of 1,000,000 units at a cost of \$1 per unit, with each unit consisting of 1 common share and one series A share purchase warrant. Each warrant is convertible into one common share at the exercise price of \$1.25 per warrant, for a period of one year from the date of issue. The cost of the issue is estimated at \$50,000, and the agent's fee is 10% of gross proceeds. The agent, Hayes Bustin Securities Inc., has agreed to use its best efforts to secure subscriptions of these units.

CERTIFICATES OF THE ISSUER AND THE PROMOTER

DATED: June 28, 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 XV of the *Securities Act* (Ontario) and the regulation thereunder.

(Signed) ALDO BAIOCCHI
Chief Executive Officer

(Signed) RAYMOND RABBANI
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

(Signed) ARGIRIOS DIMACOPOULOS
Director

(Signed) ALDO BAIOCCHI
Director

(Signed) RAYMOND RABBANI
Director

PROMOTERS

(Signed) ALDO BAIOCCHI

CERTIFICATE OF THE AGENT

DATED: June 28, 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 qualified by this prospectus as required by Part XV of the *Securities Act* (Ontario) and the regulation thereunder.

HAYES BUSTIN SECURITIES INC.

(Signed) Martin R. Cole

The following are the names of every person or company having an interest, directly or indirectly, to the extent of not less than 5% in the capital of Hayes Bustin Securities Inc.: Martin R. Cole