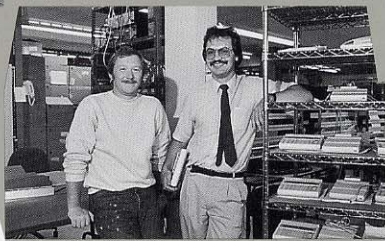


Integra Systems Inc.



ANNUAL REPORT 1988

A Year of Innovation



Integra Systems Inc, a public company, was formed in

1986 with four employees and first year sales of \$4 million.

Today this North American leader in fully-integrated systems

for the information processing and electronic payment

markets has fifty-seven employees and moves into fiscal

1989 with sales projections of \$15 million.



1988 was a year of change and maturation for Integra Systems Inc. From our inception in 1986, we have proven our abilities to build product profitably and in record time, resulting in \$8.0 million in sales in just 19 months. Our challenge in 1988 was to design new products, set up new services, bring in key sales and marketing people, and achieve market independence by expanding our activities in numerous arenas, particularly in the United States. ★ We achieved this in 1988. Integra grew from 12 employees in 1987 to 57 employees while maintaining a sales per employee average of \$141,660, despite the loss in overall profits. ★ We moved from a 2,000 sq. ft. office building to an 8,500 sq. ft. manufacturing facility, and have finalized plans to locate in our own 23,000 sq. ft. building in 1989. ★ Above all, the supreme efforts and success of our R&D Division have resulted in a solid offering of integrated products which now include our initial terminal, the TransActor products, and the exciting SofTerm, with its terminal, PIN pad, and printer options. ★ The financial results obscure this heightened R&D activity as we report a 1988 loss of \$1.3 million or \$0.16 per share on sales of \$4.2 million. These losses can be attributed to delays in the shipments of two significant orders in our last quarter—however, these orders were shipped in the first quarter of 1989. ★ We continued our strategic partnership with Cevaxs Corporation, the largest video cassette movie renter in the world. In fact, it was their confidence and initial order of 5,000

"Ours is a business of innovation. The fifty-seven individuals behind the success of Integra are exceptional in terms of their talents, tenacity, and commitment to the future."

Ralph G. Scobie, President/CEO

terminals in 1986 that propelled us quickly into a major role in the EFT/POS marketplace. When Cevaxs acquired the Southland Division of MovieQuick, an additional 5,000 units of an enhanced terminal were ordered which we developed in an

unprecedented 120 days. Delivery scheduled for the final quarter of 1988 was delayed; however, when this system of over 10,000 terminals is completely installed in 1989, it will form part of the second largest systems network in the world after the airlines.





One of the 'founding four' of Integra Systems Inc, Ralph Scobie contributes operational, marketing, and financial skills gained from a background with the Royal Bank of Canada, Pemberton Securities, as an independent entrepreneur, and in an executive capacity with Xerox Canada Inc. where his experience in office automation has proved invaluable to the new company.

As our R&D intensified through 1988, we set marketing plans in place that will be aggressively introduced in 1989. SofTerm, our sophisticated application-specific terminal which was developed this year, will allow us to take a cost-effective and flexible generic product to diverse markets including banking, retail, medical, and transportation organizations—in fact, any application that involves "card activated" transactions. We anticipate entering fiscal 1989 with an order backlog of \$11.5 million and are confident that significant orders will be signed and delivered with a retail entertainment company, major telecommunications company, two banking organizations, an insurance corporation, and a leader in the transportation field. ★ Our ability to work as a team has been the key to Integra's success. Drawing on our remarkable people who provide a significant base of capabilities in computer engineering, manufacturing, hardware/software development, sales & marketing, and finance, we have remained responsive to the market in 1988 and have positioned ourselves for a targeted marketing thrust in 1989. ★ We will heighten our involvement in the critical US market under the strategic planning of Michael Strada, Executive Vice-President and Director of US Operations, and will service the eastern continent through a new sales position based in Orlando, Florida. We have also made an application for listing on the NASDAQ system, which will make Integra more accessible to the North American investment community. ★ In conclusion, Integra is a successful company built on sound and visionary management, a creative work environment, financial integrity, aggressive exploration of opportunity, timely diversification, and technological innovation. We will continue to provide these assets to our customers, our shareholders... and our employees.



Ralph G Scobie

President/CEO



"Weekly meetings are a time for putting everything on the table. Engineering, finance, marketing, and administration — the complete management team gathers to share information and set objectives for the Company."

Roslyn Stanley, Marketing Manager



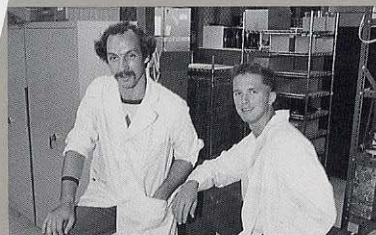
Photo (left to right): Jack Hnatiuk, Randy Tkatch, Les Arduini, Barbara Clerihue, Michael Strada, Ralph Scobie, Richard Strafehl, Roslyn Stanley, Ole Jensen, Suresh Singh.

It has been a highly successful year in Integra's R&D arena as we positioned ourselves as innovators in the EFT/POS industry with an integrated network of products applicable across a broad spectrum of markets. ★ We took technological risks and defied deadlines to develop product when others said it couldn't be done... and while competitors' products were still on the drawing boards. A major focus in 1988 was on solidifying our position with Cevaxs Corporation as we provided significant hardware and software improvements to their proprietary video transaction terminal. ★ From our innovative work in these technology applications came SofTerm, our generic POS terminal which will serve as the basis of our marketing efforts in the coming year. This exciting product virtually puts us two steps ahead of the competition. SofTerm provides the same debit/credit functions of simple terminals, but goes well beyond to add built-in LAN (Local Area Network) capability, software programmability, a memory expandable to 896 kilobytes, and complete configurability at each installation with barcode scanners, PIN pads, and printers or other peripherals to meet the site-specific requirements of each customer. ★ We also continued development on our TransActor, a high performance fully-integrated transaction switching facility initially developed for Cevaxs. As customers' demands for fast on-line communications increase, we anticipate that the TransActor will readily find its niche in the marketplace. ★ For the future, we will

"Our customers have high goals and expectations and have set very aggressive time tables. Engineering has met these challenges with an expanded product line that leads the industry."

Ole V. Jensen, P. Eng., Executive Vice President, Engineering

continue to enhance our products, making them even more powerful, and will add new products to the Integra line. We have engineered our products to provide an open architecture so that application software can be developed quickly, either by ourselves or by network suppliers who will come to view us as a standard for the industry. ★ Our people are energetic, motivated, highly skilled, and have that indefinable "maverick" quality that allows us to take the calculated risks necessary to remain a technology leader.





It was the engineering ingenuity of Ole Jensen and his team that produced the customized transaction terminal that launched Integra Systems Inc. Ole's background includes senior positions with Epic Data in British Columbia and, under his own technology company, service to customers including Microtel, MacDonald Dettwiler & Associates, Glenayre Electronics, and Mobile Data International. Today Jensen oversees a department of sixteen engineers and technologists and is responsible for all R&D for Integra.

Just as industry moved from slide rule to calculator to PC to super mini, today's EFT/POS market is also starting to evolve. Although the focus to date has been predominantly on simple credit authorization units, customers are increasingly demanding more sophistication in information processing services. In 1988, Integra began to meet the demand by offering an impressive selection of high performance products and unparalleled systems integration knowledge to the North American marketplace. ★ Our SofTerm terminal has the ability to access large amounts of memory and offers a host of processing features, from inventory control to the tracking of sales trends. This product has met with an exceptional reception by media and potential customers alike and will prove to be the cornerstone of our 1989 marketing activities. Our TransActor product line allows customers access to communications networks and host computers quickly and cost-effectively. This product was well received at November's ATM Conference in New Orleans. ★ We have evolved from the single product/single customer situation which launched the Company, to today's diversification of markets to include contracts with Lucky Stores Inc. of California; a 6,500 POS terminal order to Alliance Systems Inc. who are marketing a new card for the retail entertainment industry; an additional 5,000 terminal order to Cevax; and negotiation with industry leaders in a number of diverse markets. ★ Although we remain secure in our position as the largest supplier of point-of-sale systems to the North American video industry, we felt it was essential in 1988 to investigate network and terminal opportunities in previously untapped vertical markets such as fi-

"The feeling among people in a number of diverse markets is that we're trendsetters. If you want state-of-the-art EFT/POS products and applications that will solve complex problems, look to Integra."

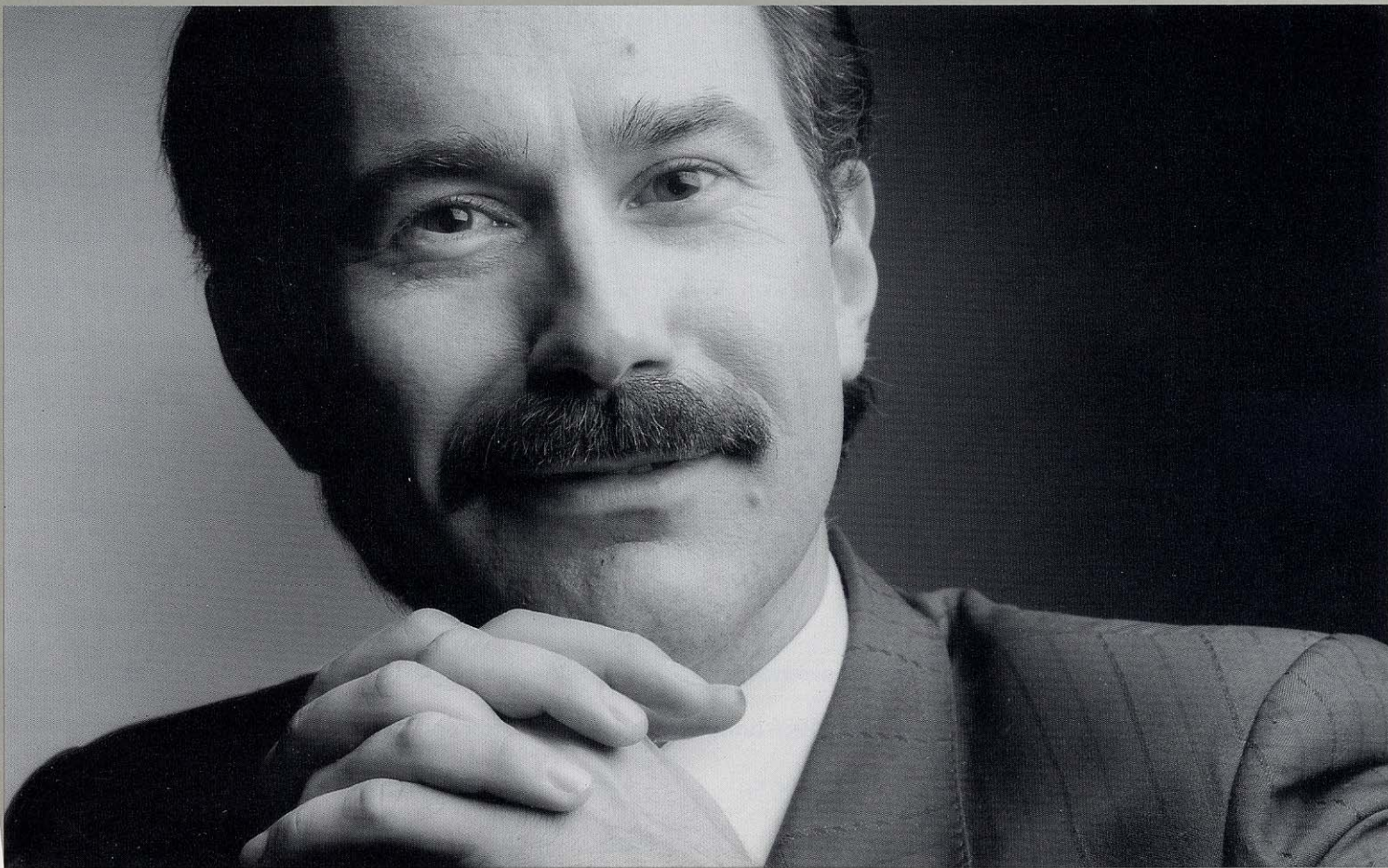
Richard Strafehl, Executive Vice President, Sales & Marketing

nancial institutions, retail chains, transportation and distribution companies, car rental companies, shopping malls, airlines, medical and insurance organizations, and petroleum companies. ★ We are assisted in these efforts by our Executive Vice-President and Director of US Operations, Michael Strada.

His background as President of HONOR, one of the most successful debit networks in the United States, and representation on the prestigious EFT Task Force on Debit, have proved invaluable to us in 1988 as we initiated new business partnerships in our key market, the United States.



With specific responsibility for Sales & Marketing, Richard Straehl brings extensive experience to Integra. He was a Marketing and Product Manager for Xerox Canada Inc, Branch Manager and National Marketing Manager for Intecom, and Telecommunications Terminal Systems and, prior to co-founding Integra, a partner in a financial consulting service for entrepreneurs.



Fiscal 1988 was a year of response to a series of events which challenged us in the short run, but which will result in a stronger and more flexible company for the future. ★ We had started out in 1986 as a manufacturing company, with \$1 million a month in sales and modest overhead. In 1988, we recognized that our profitability depended on expanding our product offerings and so we became, in effect, an R&D company throughout the majority of the year. This was reflected in our figures reporting a loss for 1988. ★ In addition, significant shipments worth over \$5.5 million in projected income for 1988 were not delivered until after our March year end. An order of 5,000 terminals for Cevaxs Corporation was delayed, although it is significant that the customer was delivered a product in the following first quarter that was enhanced *beyond* the original specifications. The delivery of the last half of an \$800,000 order for Lucky Stores Inc. was also delayed until the first quarter of 1989. ★ In the meantime, our overhead went up as we intensified R&D efforts throughout the year, committing funds to the development of SofTerm, the TransActor network, and other comprehensive products. It became as much a year of pre-production as of manufacturing and, when viewed with this in mind, the figures are more realistic. ★ During fiscal 1988 we also addressed our accounting policies. This year's figures reflect a write-off of two years of R&D:

"Fiscal 1988 was a year of positioning. We were very aggressive in developing new product, consolidating infrastructure, and addressing accounting policies. We ended the year well-positioned for profitable results in 1989."

Les V. Arduini, CA, Executive Vice President/CFO

the balance of last year's which was deferred and all of the current year's. We will now be writing R&D off in the year it is incurred. We also addressed product pricing strategies and initiated financing options for 1989 which will include raising \$3-\$5 million through a private placement so that we can con-

fidently commit ourselves to large orders in the future. ★ To summarize: We believe that the prudent steps taken in 1988 honour the trust of both our employees and shareholders, leaving us well-positioned for the future.





Les Arduini spent eleven years with Price Waterhouse in the generalized areas of audit, finance, tax, and as a Manager of their Special Services Department focusing on computer-based accounting, financial planning, and business valuation. Prior to becoming one of the founders of Integra, Les was the Vice President of Finance for Raymond Salons Limited, one of British Columbia's largest private companies.

March 31	1988	1987
ASSETS		
Current assets		
Cash and term deposits	\$ —	240,035
Accounts receivable	527,008	387,244
Income taxes recoverable	200,254	—
Inventories (note 3)	2,434,512	484,650
Prepaid expenses	54,154	13,376
Total current assets	3,215,928	1,125,305
Fixed assets, at cost less accumulated depreciation		
Office equipment	133,946	92,805
Computer hardware and software	196,921	44,769
Leasehold improvements	134,675	117,747
Production equipment	247,546	181,827
	713,088	437,148
Less accumulated depreciation	172,874	41,578
Net fixed assets	540,214	395,570
Deferred expenses and intangible assets (note 4)	—	453,406
	\$ 3,756,142	1,974,281

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Bank indebtedness	\$ 10,136	—
Accounts payable and accrued liabilities	873,025	775,130
Refundable deposits	550,000	119,890
Income taxes payable	—	97,913
Total current liabilities	1,433,161	992,933
Deferred income taxes	—	241,000
Shareholders' equity		
Share capital (note 5)	3,228,966	382,449
Retained earnings (deficit)	(905,985)	357,899
Net shareholders' equity, per accompanying statement	2,322,981	740,348
Commitments (note 7)		
	\$ 3,756,142	1,974,281

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended March 31, 1988	Ten months ended March 31, 1987	Year ended May 31, 1986 (Unaudited)
Sales	\$ 4,249,809	3,795,277	18,000
Cost of goods sold	2,539,712	2,270,084	—
Gross profit	1,710,097	1,525,193	18,000
Expenses			
Selling, general and administrative	2,378,682	637,277	19,351
Research and development	492,254	—	—
Depreciation	89,365	24,396	—
Interest	17,521	11,869	—
	2,977,822	673,542	19,351
Other			
Amortization and write-off of:			
Deferred development expenditures (note 4)	494,228	50,582	—
Goodwill (note 4)	48,750	1,250	—
Interest income	(104,805)	(1,140)	—
	3,415,995	724,234	19,351
Income (loss) before income taxes	(1,705,898)	800,959	(1,351)
Income tax (expense) recovery (note 6):			
Current	201,014	(200,709)	—
Deferred	241,000	(241,000)	—
	442,014	(441,709)	—
Net income (loss) for the period	\$ (1,263,884)	359,250	(1,351)
Earnings (loss) per share (note 9)	\$ (0.16)	0.12	—

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of Integra Systems Inc. as at March 31, 1988 and 1987 and the consolidated statements of operations, shareholders' equity and changes in financial position for the year ended March 31, 1988 and the ten months ended March 31, 1987. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1988 and 1987 and the results of its operations and the changes in its financial position for the year ended March 31, 1988 and the ten months ended March 31, 1987 in accordance with generally accepted accounting principles applied on a consistent basis.

Peat Marwick

Chartered Accountants

Vancouver, Canada

May 18, 1988

CORPORATE INFORMATION

DIRECTORS AND CORPORATE OFFICERS

Ralph G Scobie**

President and CEO

Leslie V Arduini**

Executive Vice-President

Chief Financial Officer

Richard Strafehl**

Executive Vice-President

Sales and Marketing

Ole V Jensen**

Executive Vice-President

Engineering

Michael A Strada

Executive Vice-President and Director

US Operations

David Dvorchik*

Director

Royal Oak Securities Ltd.—Toronto

Allan Buchanan*

Director

Buchanan Consulting—Toronto

Edward D Ford*

Director

Enterprise Developments Inc.

**Officer & Director

*Director

AUDITORS

KPMG Peat Marwick

Vancouver, BC

TRANSFER AGENTS

Central Trust Company

Vancouver, BC

SOLICITORS

Ladner Downs

Vancouver, BC

Morton and Co.

Vancouver, BC

BANKERS

The Royal Bank of Canada

Vancouver, BC

STOCK EXCHANGE LISTINGS

Vancouver Stock Exchange

Symbol—ISI

Toronto Stock Exchange

Symbol—ISI

NASDAQ System

Symbol—ISIH

CORPORATE OFFICES

Head Office

1574 West 6th Avenue

Vancouver, BC

Canada V6J 1R2

Tel: 604 733 1322

Fax: 604 732 7284

New Address

After November 1, 1988

1655 West 3rd Avenue

Vancouver, BC

Canada V6J 4V7

REGIONAL OFFICES

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Tel: 416 971 9968

Fax: 416 971 9980

Suite 100—2250 Lucien Way

Maitland, Florida

USA 32751

Tel: 305 660 0084

Fax: 305 660 0072

The Annual Meeting of the Shareholders of Integra Systems

Inc. will be held at 11:00 am on Friday, September 9, 1988 at the

Sheraton Centre Hotel, Toronto, Ontario, Canada.