

Integra Systems Inc.

A N N U A L R E P O R T 1 9 8 7

Financial Highlights

***Ten months ended
March 31, 1987***

Revenue	\$ 3,795,277
Net earnings	\$ 359,250
Working capital	\$ 132,372
Total assets	\$ 1,974,281
Shareholders' equity	\$ 740,348
Earnings per share	\$ 0.12

Report to Shareholders



Left to right: Ralph G. Scobie, Chairman & C.E.O.; Richard Straehl, President; Ole V. Jensen, P. Eng., Executive Vice President, Engineering; Les V. Arduini, C.A., Executive Vice President & C.F.O.

Fiscal 1987 was an historic year for Integra Systems Inc. It was a year of significant milestones and achievements which have created a sense of pride and enthusiastic confidence that the future growth and financial success of the company will continue in a well planned and dynamic business environment. In our first year in the systems integration business, Integra Systems Inc. has grown from an idea into a highly successful operating

entity. Consequently, we look to the future with great optimism, pleased with our accomplishments and aware that much needs to be done to meet the challenges of our second year in business. As we move into fiscal 1988, we plan to continue our growth, enhance our product line and position the company as a recognized leader in the Electronic Payment and Data Communications Systems industry.

As a first year public corporation, growth and profitability were established as the hallmark of our entry

into the industry. From four shareholders when the company was founded, we have gained the support and confidence of over three hundred as a result of our reverse takeover of Kokanee Resources Ltd. From an idea that was born out of a response to an identified industry demand for systems integration of complex, sophisticated applications we projected first year sales of three million dollars. The validity of our engineering concept and marketing

approach has been confirmed by our achievement of sales approaching four million dollars. More importantly, our sales figures translate into earnings of \$360,000.00 after tax, or \$0.12 per share.

Integra Systems Inc. was formed with four employees. We currently employ thirty-one highly skilled specialists and our 1988 Business Plan anticipates that number increasing to fifty by year-end. It is significant to note that our engineering department, which has been the driving force behind our exceptional level of product acceptance currently employs eleven innovative engineers.

As sales have increased, and our staff has grown, so have our space requirements. From one very major customer at the inception of the company, we are currently designing and manufacturing systems for three international corporations. Consequently, having first operated out of a 2700 square foot facility, we have expanded into our current 9000 square foot premises and are carefully anticipating the need to increase our space even further.

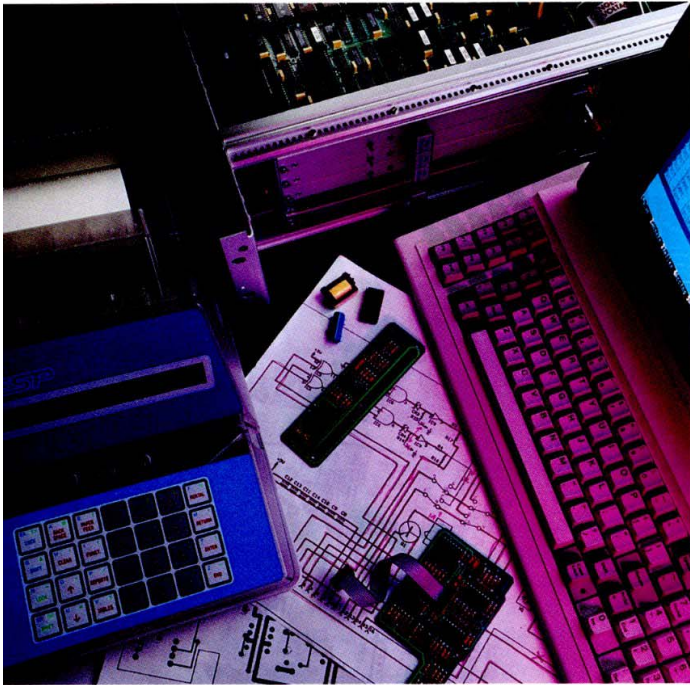
Fiscal 1987 was a year of tremendous excitement, growth, change and success for Integra. It was also a year in which we quietly began to develop a reputation as innovators who could be depended on to design, manufacture and install systems that answer the specific and often unique needs of each customer. The results that we achieved in 1987 are only a precursor of the future for Integra. The systems integration industry is in its infancy. As the industry goes through the next five formative years, growth will be dramatic. From our solid financial base, Integra is well poised to continue to meet and over-achieve the challenges of this burgeoning industry.



In order to ensure that the client's needs were met, Integra employees kept the assembly division in production for 61 consecutive days. As a result, the company shipped 3900 ESP Terminals for installation in convenience stores throughout Canada and the United States.

Our insistence on product integrity, reliability and affordability have allowed us an entry into a specific niche in the market. Our early success and proud new reputation will see us dominate that segment of the market. Integra Systems Inc. is a manufacturer of electronic funds transfer/point of sale and data communications systems. Our product line is already recognized as a major new addition to the industry.

Innovative engineering solutions have been the key to our first year success in the systems integration business.



Significantly, Integra products are also regarded as technologically sophisticated systems that have made impressive in-roads in a highly competitive industry.

The Integra product line centers around the ESP™ terminal family and the Integra TransActor™. More than a point of sale authorization device, the ESP™ terminal offers a whole new concept in hardware and software architecture. Integra's design philosophy is founded in the belief that our customers' success is going to be based on growth, sound financial management, the ability to adapt rapidly to changing market conditions and to be unique. The ESP™ terminal, like all Integra products, is as unique as the user. It can grow from a simple Credit/Draft Capture device to a fully-integrated high performance POS system with cash drawer, scanner and a variety of printers.

The ESP™ terminal establishes a new standard of performance and capability in EFT/POS terminal technology. Using a multiprocessor architecture and modular design in packaging and software, customers can choose from a variety of options to configure a system to meet their specific operational and management requirements.

The Integra TransActor™ is a transaction communications processor and is revolutionary in that it has been designed to allow the co-existence of multiple terminals and computers from a variety of manufacturers.

In addition, it provides high volume, low cost on-line communications where fast response time and high reliability are critical.

The TransActor™ has been designed from a communications as well as a data processing perspective. It provides a fully integrated solution will all hardware and software necessary for communications from the terminal to the host computer. It takes advantage of the latest design techniques in both hardware and software modularity. Consequently, the TransActor™ ensures the highest utilization of hardware resources; maximizes the response performance of the system and ensures optimum system availability. As a further extension of our TransActor™ product line, Integra acquired Canysco Industries Ltd., of Vancouver to adapt this technology and market it to the Factory Automation environment.



Installed in convenience stores in Canada and the United States, the Integra ESP Terminal provides guaranteed control to both the store operator and North America's largest video distributor.

Our proven product line will continue to evolve to meet the requirements of our customers. In their continuing evolution, Integra products are gaining attention around the world.

Our real strength, however, is the people who conceive, design and build our systems; the people who manage, administer and market our business. The vision, determination and unbridled drive of all of our people are responsible for our enviable first year performance. On the exceptional

strength of the employees of Integra we are confident that our second year in business will see us eclipse the achievements of fiscal 1987.

Ralph G. Scobie
Chairman & C.E.O.

Richard Strafehl
President

Consolidated Balance Sheet

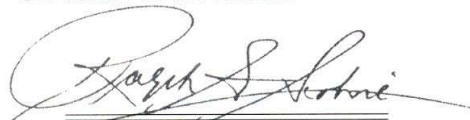
March 31, 1987

Integra Systems Inc.

(Formerly Kokanee Resources Ltd.)

Assets	March 31, 1987	May 31, 1986
Current Assets:		
Cash and term deposits	\$ 240,035	27
Accounts receivable	387,244	1,281
Inventory	484,650	-
Prepaid expenses	13,376	-
	1,125,305	1,308
Fixed assets, at cost		
Office equipment	137,574	-
Leasehold improvements	117,747	-
Production equipment	181,827	-
	437,148	-
Less accumulated depreciation	41,578	-
	395,570	-
Deferred expenses and intangible assets (Note 3)	453,406	-
	<u>\$ 1,974,281</u>	<u>1,308</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 775,130	2,259
Refundable deposits	119,890	-
Income taxes payable	97,913	-
	992,933	2,259
Deferred income taxes payable	241,000	-
Shareholders' equity:		
Share capital (Note 4)	382,449	400
Retained earnings (deficit), per accompanying statement	357,899	(1,351)
	740,348	(951)
Commitments (Note 6)		
	<u>\$ 1,974,281</u>	<u>1,308</u>

On behalf of the Board:


Director
Director

Consolidated Statement of Income and Retained Earnings*March 31, 1987*

	<i>Ten months ended March 31, 1987</i>	<i>Year ended May 31, 1986</i>
Sales	\$ 3,795,277	18,000
Cost of goods sold	2,270,084	—
Gross profit	1,525,193	18,000
Selling, general and administrative expenses:		
Salaries and benefits	371,611	14,500
Office and general	189,386	1,717
Entertainment and travel	57,157	—
Advertising and promotion	19,123	3,134
Interest	10,729	—
Depreciation	24,396	—
	672,402	19,351
Amortization of deferred expenses and intangible assets	51,832	—
	724,234	19,351
Income (loss) before income taxes	800,959	(1,351)
Income taxes (Note 5):		
Current	200,709	—
Deferred	241,000	—
	441,709	—
Net income (loss) for the period	359,250	(1,351)
Deficit, beginning of period	(1,351)	—
Retained earnings (deficit), end of period	<u>\$ 357,899</u>	<u>(1,351)</u>
Earnings per share (Note 8)	<u>\$ 0.12</u>	<u>—</u>

Consolidated Statement of Changes in Financial Position

March 31, 1987

Integra Systems Inc.

(Formerly Kokanee Resources Ltd.)

	<i>Ten months ended March 31, 1987</i>	<i>Year ended May 31, 1986</i>
Operating activities:		
Net income (loss) for the period	\$ 359,250	(1,351)
Add:		
Non-cash items affecting income:		
Depreciation	41,578	-
Amortization	51,832	-
Deferred income taxes	241,000	-
Net change in working capital, excluding cash and items arising from business combinations	60,622	978
Cash provided by (applied to) operating activities	754,282	(373)
Financing activities:		
Issue of share capital	-	400
Advances from parent and affiliated company prior to business combination (Note 1)	423,358	-
Cash provided by financing activities	423,358	400
Investing activities:		
Deferred development expenditures, net	(455,238)	-
Fixed assets	(387,148)	-
Business combinations (Note 1)	(95,246)	-
Cash applied to investing activities	(937,632)	-
Increase in cash during the period	240,008	27
Cash, beginning of period	27	-
Cash, end of period	<u>\$ 240,035</u>	<u>27</u>

See accompanying notes to consolidated financial statements

1 Business combinations and nature of operations:

Integra was incorporated as Kokanee Resources Ltd. under the British Columbia Company Act and changed its name to Integra Systems Inc. on March 3, 1987.

On January 22, 1987, Integra Systems Inc. (Integra) entered into a share exchange with Starnet Technologies Ltd. (Starnet) under which Integra exchanged 4,000,000 shares of its common stock at a deemed price of \$0.50 per share, for all of the issued and outstanding shares of Starnet.

Legally, Integra is the parent of Starnet, however as a result of the share exchange, control of the combined companies passed to the former shareholders of Starnet as a group. This type of share exchange is referred to as a "reverse takeover" in which Starnet is deemed to be the acquiror for accounting purposes.

The share exchange was accounted for by the purchase method and, accordingly, for financial reporting purposes the net assets of Starnet are included in the balance sheet at book values and the net assets of Integra have been recorded at fair market value at the date of acquisition.

Pursuant to an agreement with an effective date of February 16, 1987, Integra acquired all of the issued and outstanding shares of Canysco Industries Ltd. (Canysco) for \$145,114 of which \$100,000 has been paid and the balance of \$45,114 is included in accounts payable. The beneficial owner of Canysco, immediately prior to acquisition is also a shareholder and director of Integra.

The assets and liabilities acquired were:

	<i>Integra</i>	<i>Canysco</i>	<i>Total</i>
Cash	\$ 3,000	1,754	4,754
Accounts payable	(8,699)	(2,250)	(10,949)
Accounts receivable	—	10,000	10,000
Advances to Starnet	387,748	35,610	423,358
Fixed assets	—	50,000	50,000
Goodwill	—	50,000	50,000
	<u>\$ 382,049</u>	<u>145,114</u>	<u>527,163</u>

The operations of the consolidated companies (the Company) included in these financial statements are those of Starnet for the year ended May 31, 1986 and the period June 1, 1986 to March 31, 1987 and include the accounts of Integra and Canysco from the date of the share exchange and purchase.

Originally, Integra was involved in the identification and development of mineral properties. As management decided not to expend further funds on these claims, the cost of the claims and the deferred exploration and administration expenditures were attributed with no value at the time of the reverse takeover.

The Company is now in the business of developing, producing and marketing data communications and processing systems.

Notes to Consolidated Financial Statements

March 31, 1987

Integra Systems Inc.

(Formerly Kokanee Resources Ltd.)

2 Accounting Policies:

(a) Principle of consolidation:

The consolidated financial statements include the accounts of the wholly owned subsidiaries, Starnet Technologies Ltd. and Canysco Industries Ltd. (Note 1).

(b) Depreciation and amortization:

Depreciation of equipment and leasehold improvements is provided on the following basis:

Computer hardware and software	— 30% straight-line
Office and production equipment	— 20% straight-line
Leasehold improvements	— 20% straight-line

The cost of molds is amortized based on anticipated production over a period not to exceed three years.

Goodwill is amortized on a straight-line basis over a period of five years.

(c) Deferred development expenditures:

Costs incurred to acquire or develop products for commercial use have been capitalized and are amortized based on anticipated production over a period not to exceed three years.

The amount shown for deferred development expenditures represents costs to date and does not necessarily reflect present or future values.

(d) Foreign currency translation:

Revenue and expense items are translated using the average rate for the period. Exchange gains or losses resulting from translation are reflected in income.

(e) Revenue recognition and deferred revenue:

The Company recognizes revenue from the sale of the product at the later of delivery or, if applicable, acceptance of the product. Amounts received in advance of delivery or acceptance are deferred accordingly and included in refundable deposits.

(f) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is calculated using the first-in first-out method.

3 Deferred expenses and intangible assets:

Deferred development expenditures:

Administration costs	\$ 143,502
Consulting fees	322,268
Materials and parts	79,040
	544,810
Less— Investment tax credits	89,572
— Accumulated amortization	50,582
	404,656
Goodwill (net of amortization of \$1,250)	48,750

\$ 453,406

4 Share capital:

(a) Authorized:

- 20,000,000 common shares without par value
- 2,000,000 Class "A" common, non-voting, convertible shares without par value. These shares are convertible into common shares on the basis of one such common share for each \$0.50 cash flow from the operations of Starnet. The right to exchange Class "A" shares for common shares is to cease January 1, 1992. These shares may only be converted upon regulatory approval.

(b) Issued:

- 4,694,201 common shares
- 2,000,000 Class "A" common shares

(c) The value assigned to the issued share capital presented in these financial statements is calculated as follows:

Balance of Starnet share capital immediately prior to the business combination	\$ 400
Issued to effect the share exchange (Note 1)	382,049
	<u>\$ 382,449</u>

The legal paid up capital of the Company is \$2,667,725 and differs from the amount carried in the accounts as a result of the reverse takeover.

- (d) A total of 750,000 shares of the issued share capital of the Company are held in escrow. These shares may not be transferred, assigned or otherwise dealt with without the consent of the relevant regulatory body having jurisdiction thereon.
- (e) A total of 600,000 shares of the issued share capital of the Company are subject to a hold period which expires October 31, 1987. During this period these shares may not be sold, transferred or assigned.
- (f) Option agreements:
- (i) As at March 31, 1987, a director and employee of the Company was entitled to purchase 63,300 shares of the Company at \$0.75 per share. This stock option agreement expires on September 11, 1988.
 - (ii) Effective January 14, 1987 stock options were granted to certain directors and employees of the Company to acquire 403,000 shares at \$1.40 per share. These stock option agreements expire on January 14, 1989 if not exercised.

Notes to Consolidated Financial Statements

March 31, 1987

Integra Systems Inc.

(Formerly Kokanee Resources Ltd.)

5 Income taxes:

Consolidated income tax expense of \$441,709 is greater than the amount of income tax expense computed at an expected income tax rate of approximately 53% due primarily to losses of a subsidiary for which no benefit has been provided.

6 Commitments:

The minimum rental payments for leased office and production space amount to \$46,750 per year until December 31, 1989.

7 Related party transactions:

- (a) Consulting and other fees of \$378,000 were paid to certain directors, shareholders and related companies.
- (b) All the Company's sales to date have been made to one customer.

8 Earnings per share:

Earnings per share has been calculated using the weighted average number of shares outstanding during the period.

9 Subsequent event:

The Company completed a private placement of its shares on May 7, 1987. Under this private placement, 1,350,000 common shares of the Company were sold at a price of \$2.25 per share for a total of \$3,037,500. Expenses and commissions of this private placement are expected to total \$249,000.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Integra Systems Inc. (formerly Kokanee Resources Ltd.) as at March 31, 1987 and the consolidated statements of income and retained earnings and changes in financial position for the period then ended. 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, 1987 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
May 8, 1987

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Corporate Information

Directors and Corporate Officers

Ralph G. Scobie**

Chairman and C.E.O.

Richard Strafehl**

President

Leslie V. Arduini**

Executive Vice President

Chief Financial Officer

Ole V. Jensen**

Executive Vice President, Engineering

M. Bey McGougan

Vice President, Eastern Operations

Michael A. Strada

*Vice President Strategic Planning
and Market Development*

David Dvorchik*

Director

Royal Oak Securities Ltd. — Toronto

Donald Sheldon*

President

Hi-Tech Ventures Inc. — Vancouver

****Officer & Director**

*** Director**

Auditors

Peat Marwick Mitchell & Co.
Vancouver, B.C.

Transfer Agents

Central Trust Company
Vancouver, B.C.

Solicitors

Ladner Downs
Vancouver, B.C.

Morton & Co.

Vancouver, B.C.

Bankers

The Royal Bank of Canada
Vancouver, B.C.

Stock Exchange Listing

Vancouver Stock Exchange
Symbol — ISI

Corporate Offices:

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***The Annual Meeting of the
Shareholders of Integra Systems
Inc. will be held at 10:00 a.m. on
Wednesday August 12th, 1987 at
the Four Seasons Hotel,
Vancouver, B.C. Canada***