Systemhouse Ltd 1982 Financial Statements

Subsequent to year end, the Company implemented a financial restructuring program. This program is set out in Note 1 to the Audited Financial Statements. The common and preferred shares referenced in that note were sold and paid in cash to the Company by Bytec Management Corporation and Kinburn Capital Corporation, prior to December 31, 1982.

Rod Bryden

Chairman

AUDITORS' REPORT

To the Shareholders of
Systemhouse Ltd.:

We have examined the consolidated balance sheet of Systemhouse Ltd. as at August 31, 1982 and the consolidated statements of operations, (deficit) retained earnings and changes in financial position for the year 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 August 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Ottawa, Canada
November 4, 1982
(November 23, 1982 with respect to notes 1, 9 and 11)

Clarkson Gordon
Chartered Accountants

SYSTEMHOUSE LTD.
(Incorporated under the Canada Business Corporations Act)

Consolidated Balance Sheet
August 31, 1982

Assets

	1982	1981
CURRENT:		
Short term deposit (note 10)	$ 1,213,404	$ 8,715,904
Accounts receivable	9,537,575	6,459,234
Work in process	3,474,578	7,451,479
Hardware inventory (note 8)	4,171,190	569,000
Prepaid expenses	874,451	1,150,773
	19,271,198	24,346,390
FIXED (note 6)	7,649,628	2,557,446
OTHER:		
Software product costs (note 7)	14,254,167	13,036,699
Branch start-up costs (note 5)	—	2,196,079
	14,254,167	15,232,778
	$41,174,993	$42,136,614

Liabilities and Shareholders' Equity (Net Deficit)

	1982	1981
CURRENT:		
Bank loan (note 8)	$ 5,948,549	$ 2,805,688
Accounts payable and accrued liabilities	9,654,922	7,054,326
Current portion of non-current liabilities (note 10)	846,197	281,287
Deferred revenue	1,433,914	529,829
	17,883,582	10,671,130
BANK TERM LOAN (note 9)	19,611,829	—
CAPITAL LEASE OBLIGATIONS (note 10)	3,900,654	1,487,670
	23,512,483	1,487,670
DEFERRED INCOME TAXES	—	214,267
CONTINGENCIES (notes 1 and 15)		
SHAREHOLDERS' EQUITY (NET DEFICIT)		
Share capital (notes 1 and 11)	27,171,275	29,892,296
(Deficit) Retained earnings (note 1)	(27,392,347)	2,768,872
	(221,072)	32,661,168
Less 1,262,250 Class A Common Shares held by subsidiary company, at cost	—	(2,897,621)
	(221,072)	29,763,547
	$41,174,993	$42,136,614

ON BEHALF OF THE BOARD

C. Ian Ross
Director

C Ian Ross

Charles E. O'Connor
Director

C O'Connor

(See accompanying notes to Consolidated Financial Statements)

SYSTEMHOUSE LTD.

Consolidated Statement of (Deficit) Retained Earnings

Year Ended August 31, 1982

	1982	1981
Retained earnings, beginning of year	$ 2,768,872	$ 1,952,134
Add (Deduct):		
Net (Loss) Income for the year	(29,531,643)	2,061,632
Dividends — preferred shares	—	(14,276)
— common shares	(588,075)	—
Cost of share issue (net)	—	(1,184,882)
Excess of cost of common shares purchased over proceeds		(45,736)
Premium on purchase of Class B Common Shares for redemption	(41,501)	—
(Deficit) Retained earnings, end of year	$ (27,392,347)	$ 2,768,872

Consolidated Statement of Operations

Year Ended August 31, 1982

	1982	1981
Gross revenue	$ 39,244,145	$ 29,275,896
Investment income	589,146	1,265,339
	39,833,291	30,541,235
Less cost of products sold	6,597,488	4,496,697
Operating revenue	33,235,803	26,044,538
Expenses:		
Operating and administrative	40,075,881	22,762,443
Depreciation and amortization of:		
— fixed assets and assets under capital lease	1,239,857	413,383
— software product costs	694,000	74,087
— branch start-up costs	1,242,417	—
Interest — long term debt	603,130	163,726
— short term debt	1,794,613	—
Deferred income taxes (recovery)	(214,267)	569,267
	45,435,631	23,982,906
(Loss) Income before the following	(12,199,828)	2,061,632
Non-recurring items (note 3)	3,276,395	—
Write-down of deferred costs of graphics systems (note 4)	4,177,149	—
Write-off of branch start-up costs (note 5)	9,878,271	—
Net (Loss) Income for the year	$ (29,531,643)	$ 2,061,632
(Loss) Earnings per share	$(2.51)	$ .19

(See accompanying notes to Consolidated Financial Statements)

SYSTEMHOUSE LTD.

Consolidated Statement of Changes in Financial Position

Year Ended August 31, 1982

	1982	1981
Working Capital Provided by:		
Operations:		
Net income for the year		$ 2,061,632
Add items not involving working capital:		
Deferred income taxes		569,267
Depreciation and amortization		487,470
Working capital from operations		3,118,369
Conversion to term of bank indebtedness	$ 19,611,829	—
Issue of shares (net)	177,380	21,857,940
	19,789,209	24,976,309
Working Capital Applied to:		
Operations:		
Net loss for the year	29,531,643	
Less items not involving working capital	(16,586,842)	
Working capital for operations	12,944,801	
Branch start-up costs	8,924,609	2,196,079
Investment in software product costs	5,658,032	8,020,181
Purchase of fixed assets (net)	2,802,805	1,026,838
Current maturities of capital lease and office lease obligations	1,116,250	324,643
Dividends declared	588,075	14,276
Shares purchased and cancelled	42,281	259,736
	32,076,853	11,841,753
(Decrease) Increase in working capital during the year	(12,287,644)	13,134,556
Working capital, beginning of year	13,675,260	540,704
Working capital, end of year	$ 1,387,616	$ 13,675,260
Represented by:		
Current Assets	$ 19,271,198	$ 24,346,390
Current Liabilities	17,883,582	10,671,130
Working Capital	$ 1,387,616	$ 13,675,260

(See accompanying notes to Consolidated Financial Statements)

SYSTEMHOUSE LTD.

Notes to the Consolidated Financial Statements
August 31, 1982

1. **Financial restructuring**

Subsequent to the end of the fiscal year, the Company has taken certain actions to restructure its capital base. The details of the conversion of the demand loan indebtedness to its principal banker to term indebtedness are detailed in Note 9. The financial restructuring comprises four elements:

(i) the creation of an unlimited number of Convertible Non-Voting Preference Shares. The Board of Directors approved this proposal on November 23, 1982; however, the establishment of Series I Shares is subject to approval by special resolution of Shareholders at a Special Meeting to be held in December 1982.

The following is a summary of the principal attributes of the Series I Convertible Non-Voting Preference Shares:

Dividends: Holders will be entitled to receive fixed cumulative preferential cash dividends, as and when declared, of $.225 per share on March 1, 1983 and thereafter at an annual rate of $.45 per share payable quarterly; the shares can be voted if dividend requirements are not met;

Retraction Privilege: Each share will be retractable on January 15, 1988 (the "Retraction date") at the option of the holder at $5 per share;

Conversion into Class A Common Shares: Each share will be convertible at the option of the holder at any time on or before January 1, 1986 into 2.5 Class A Common Shares on the basis of $2 per Class A Common Share and after that date, but on or prior to the Retraction date, into 1.66 Class A Common Shares on the basis of $3 per Class A Common Share. The conversion price will be subject to adjustment in certain events.

(ii) subscription by Kinburn Capital Corporation, the controlling shareholder of the Company, for 2,910,581 shares of the Series I Convertible Preference Shares for an aggregate consideration of $14,552,905 ($5 per share). The proceeds of the issuance of these shares will be applied, in accordance with the agreement with the bank, to pay down all but $9,000,000 of the bank term loan.

(iii) subscription for 2,352,941 Class A Common Shares of treasury stock for a consideration of $4,000,000 on November 23, 1982.

(iv) reduction of stated capital under Section 36(1)(c) of the Canada Business Corporations Act. The Board of Directors approved the reduction of capital and deficit by $14,055,420 on November 23, 1982. This action recognizes the reduction in value of realizable assets due to the write-off of branch start-up costs (note 5) and the write-down of the investment in Graphics systems (note 4). This reduction is subject to approval of Shareholders at the Special Meeting to be held in December 1982.

The impact of the creation and issue of Series I Convertible Preference Shares, the use of the proceeds of this issue to pay down the Bank Term Loan, the reduction of the paid up capital and the subscription for $4,000,000 of Class A Common Shares for working capital purposes results in the following proforma consolidated balance sheet:

Proforma Consolidated Balance Sheet
August 31, 1982
(reflecting effect of financial restructuring)

	August 31, 1982	Adjustments	Proforma August 31, 1982
WORKING CAPITAL			
Current Assets	$19,271,198	4,000,000 (B)	$23,271,198
Current Liabilities	17,883,582		17,883,582
	1,387,616		5,387,616
FIXED ASSETS	7,649,628		7,649,628
OTHER ASSETS	14,254,167		14,254,167
	$23,291,411		$27,291,411
BANK TERM LOAN	$19,611,829	(10,611,829) (A)	$ 9,000,000
CAPITAL LEASE OBLIGATIONS	3,900,654		3,900,654
Total long term indebtedness	23,512,483		12,900,654
SHAREHOLDERS' EQUITY (NET DEFICIT)			
Series I Convertible Preference Shares	—	10,611,829 (A)	10,611,829
Common Shares	27,171,275	4,000,000 (B)	17,115,855
		(14,055,420) (C)	
Deficit	(27,392,347)	14,055,420 (C)	(13,336,927)
Total equity (Net Deficit)	(221,072)		14,390,757
	$23,291,411		$27,291,411

(A) To give effect as at August 31, 1982 to subscription by the controlling shareholder to Series I Convertible Preference Shares and the application of the proceeds to pay down all but $9,000,000 of the Bank Term Loan at that date. The total amount of shares to be subscribed for based on the agreement signed November 23, 1982 will have a consideration of $14,552,905.

(B) To give effect to subscription for Common Shares for a consideration of $4,000,000.

(C) To give effect to a capital reduction under Section 36(1)(c) of the Canada Business Corporations Act for decline in value of realizable assets recognized at August 31, 1982.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

The Company is of the opinion that the foregoing restructuring of its financing arrangements, including the infusion of new capital, will maintain its financial viability and allow it to revert to profitable operations.

2. **Summary of significant accounting policies**

The consolidated financial statements include the accounts of Systemhouse Ltd. and all of the Company's wholly-owned subsidiaries. The financial statements have been prepared by management in accordance with generally accepted accounting principles, consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a year necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Revenue recognition

(i) Custom software

Revenue is recognized on a percentage of completion basis whereby revenue and work in process are recorded at the estimated realizable value of work completed to date. Deferred revenue is recorded to the extent that billings to clients are in excess of revenue recognized to date.

(ii) Software products

Revenue from the sale of software products is recognized at the time the Company contracts to transfer its rights to the proprietary product to the customer. Consistent with the Company's belief that its primary business is selling software, the cost of hardware included in proprietary product sales is provided for and shown as a deduction from gross revenue.

b) Fixed assets, capital leases and leasehold improvements

Fixed assets and leasehold improvements are recorded at cost. Assets under capital lease are initially recorded at the present value of minimum future lease payments.

Fixed assets are depreciated as follows:

	RATE	BASIS
Furniture and fixtures	10%	Declining balance
Office equipment	20%	Declining balance
Computer equipment	30%	Declining balance
Leasehold improvements	Term of lease	Straight line

c) Software product costs

Costs, including an allocation of interest and overhead, which relate to the development and acquisition of computer-based systems, where the systems are expected to be sold in substantially the same form in the future, are capitalized. It is the Company's policy to charge these costs to income, commencing in the year of development completion, based on projected unit sales over a period of not longer than 5 years or when it is determined that the costs will not be recovered from related future revenue.

During 1982 the Company extended the maximum amortization period from three to five years to more closely reflect the projected sales of certain of these products in future years. The change has resulted in a decrease of amortization costs for the current year in the amount of approximately $345,000.

d) Income taxes

The Company follows the tax allocation method of accounting for income taxes. Under this method, items which are included in the consolidated statement of operations in one year but are reported or deducted in the Company's tax return in another year, give rise to provisions for deferred income taxes. Deferred income taxes result principally from timing differences when claiming software product development costs, depreciation of fixed assets and unbilled work in process.

In computing the provision for income taxes, the benefit of certain significant deductions allowed under the Income Tax Act, primarily for the additional scientific research allowance for development work, is recognized in the statement of operations in the year the related expenditures are made. The net benefit of the Federal investment tax credit is recorded as a reduction in the provision for income taxes in the statement of operations in the year of realization.

A recovery of income taxes has been recognized during 1982 to the extent of a reduction in the accumulated deferred income tax credits.

e) Deferred lease credits

Under the terms of certain leases, the lessor allows the Company deferred rental payments and allowances for leasehold improvements. These deferred rent credits and leasehold allowances are amortized to operations over the lease term.

f) Foreign exchange

Current asset and liability accounts in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Other assets and liabilities are translated into Canadian dollars at rates of exchange prevailing at the transaction dates. Revenues and expenses are translated at the average rates prevailing during the year. Exchange gains and losses are included in income.

g) Hardware inventory

Hardware inventory is carried at the lower of cost, calculated on a specific item basis, and net realizable value.

3. **Non-recurring items**

During 1982 the Company incurred a number of non-recurring costs. These include a write-down in hardware inventory of approximately $1,390,000. As a general policy the Company does not hold inventory for resale other than equipment used for demonstration purposes; however, due to product delivery difficulties and ordering practices, inventory of computer hardware was acquired in excess of normal requirements.

As a result of recognizing cost overruns on certain projects as well as the reduced likelihood of recovering amounts due from a provincial hospital association, work in process and accounts receivable have been adjusted by $1,120,000. Further, due to organizational realignments and cost reduction measures, non-recurring termination costs and moving costs totalling approximately $766,000 were incurred.

4. **Graphics systems write-down**

A non-recurring write-down of the investment in Graphics systems totalling approximately $4,177,000 including development costs of $3,746,000 and other related costs of $431,000, has been recorded in the year ended August 31, 1982 reflecting management's decision to discontinue the development and sale of the AUTOPLOT system and the reduced market opportunities for AUTOCHART and AUTOMAP. Economic conditions in world markets and the limited client base has resulted in delays in recovery of the product investment. In the case of AUTOPLOT, this has resulted in the loss of the technological edge previously enjoyed necessitating a further investment to regain this position which could not be justified.

5. **Branch Start-Up Costs — Write-Off**

Beginning in 1981, the Company capitalized certain start-up costs related to the establishment of a branch network for sales of proprietary software products and the major expansion of its professional services branch capacity. In 1982, the capitalized start-up costs in the amount of $9,878,271 were written off. This decision was taken by management because of the market conditions which commenced during the second quarter and the continued uncertainty of the economic climate. While the Company believes that there is an ongoing value to the branch network, the period required to fully recoup the investment in light of these conditions is uncertain.

6. **Fixed Assets**

The following is an analysis of fixed assets:

	1982			1981
	Cost	Accumulated depreciation or amortization	Net	Net
Furniture and office equipment	$ 451,656	$ 93,055	$ 358,601	$ 141,418
Computer equipment	1,810,529	387,265	1,423,264	371,659
Leasehold improvements	2,023,197	496,547	1,526,650	669,981
Assets under capital lease —				
Furniture and office equipment	4,265,726	510,088	3,755,638	976,505
Computer equipment	856,069	270,594	585,475	397,883
	$ 9,407,177	$ 1,757,549	$ 7,649,628	$ 2,557,446

7. **Software product costs**

The Company, in common with other organizations with a high research and development component, is subject to certain volatility in the demand for its products. The recovery of costs expended on the development of software products depends on their successful marketing. The Company must therefore apply its best judgement on the acceptability of the products in the marketplace, the number and timing of sales in order to determine whether costs are recoverable and the most appropriate amortization basis for such costs. If, in the Company's judgement, any costs are not recoverable they are written off. (See note 4).

The following is an analysis of software product costs:

	1982	1981
Balance, beginning of year	$13,036,699	$ 5,157,271
Additions during the year including interest of $728,000 (1981 $565,000)	5,658,032	8,020,181
	18,694,731	13,177,452
Less amortization	(694,000)	(140,753)
Balance, before write-down	18,000,731	13,036,699
Less write-down of graphics systems (note 4)	(3,746,564)	—
Balance, end of year	$14,254,167	$13,036,699

	1982	1981
Represented by:		
Business systems	$ 3,980,518	$ 2,861,966
Graphics systems	1,532,093	4,548,053
Hospital systems	4,679,381	3,811,587
Manufacturing systems	3,254,406	1,568,982
Other	807,769	246,111
	$14,254,167	$13,036,699

The investment in Hospital systems includes the costs related to the development of two product offerings: the Hospital Financial Management system (HFMS) and the Central Registry/Admission, Discharge Transfer system (CR/ADT). Generally accepted accounting principles require that deferred development costs must be reasonably assured of recovery through related future revenue, less relevant costs and that any excess of the unamortized balances of such costs over the net amount recoverable be written off as a charge to income of the period.

Although the early recovery of the CR/ADT investment is reasonably assured, due to the absorption of all base development costs of the Hospitals product line in the HFMS costs, the resultant cost of approximately $4,400,000 for the HFMS product can only be totally recovered within the amortization period if the Company pursues, through expanded marketing efforts, both domestic and foreign sales opportunities. According to current estimates, a significant portion of these deferred costs will be recovered from foreign sales. In the opinion of management the combined sales opportunities and the actions planned to achieve such sales are reasonably assured of attaining full recovery of the development costs of HFMS.

8. **Bank loan**

As security for the bank demand loan, the Company has pledged hardware inventory and other collateral.

9. **Bank term loan**

Effective August 31, 1982, the Company has agreed with its principal banker to the conversion of all existing demand indebtedness to the bank to term indebtedness. Upon completion of the financial restructuring of the Company (See note 1), the outstanding amount of the term indebtedness will become $9,000,000 rapayable as follows:

(i) on December 31, 1984, $1,500,000;

(ii) on the last day of each three month period, commencing with the three month period ending March 31, 1985, and continuing until repaid in full, $625,000;

provided that the entire outstanding principal amount of the term loan and all interest accrued and unpaid thereon shall become due and payable on December 31, 1987.

The term loan bears interest at prime plus 1%, payable monthly in arrears.

As security for the term loan the Company has given the bank a security interest in all property and assets except the hardware inventory (See note 8) which is subject to a second charge in favour of the bank.

The Company, in accordance with the term loan agreement has agreed to certain covenants which, among other things, require the Company to maintain a minimum level of working capital of $3,256,000.

10. **Capital lease obligations**

The following is an analysis of capital lease obligations recorded on the balance sheet:

	1982	1981
Capital lease obligations bearing interest at rates varying from 14% to 21.5%	$ 4,362,652	$ 1,351,364
Other office lease obligations	250,603	291,241
Leasehold improvement financing	133,596	126,352
	4,746,851	1,768,957
Less current portion	(846,197)	(281,287)
	$ 3,900,654	$ 1,487,670

Lease commitments

The Company is committed to make future minimum payments on capital and operating leases during the next five years as follows:

	Capital Leases	Operating Leases
1983	$ 1,510,396	$ 3,155,084
1984	1,498,741	2,982,308
1985	1,359,123	2,488,966
1986	1,267,286	1,678,189
1987	842,595	541,168
	6,478,141	$10,845,715
Less interest	(2,115,489)	
Capital lease obligation	$ 4,362,652	

A term deposit of approximately $1,200,000 has been pledged as a security deposit against certain of the lease obligations.

11. **Capital stock**

Common Shares

The Class A Common Shares and Class B Common Shares have similar rights except that the Class B Common Shares are non-voting and have a preferred right to the first one cent per share of common share dividends declared in the year and then share equally in dividends after the next one cent per share of common share dividends has been paid on the Class A Common Shares.

A summary of the changes during the year in issued and fully paid Class A Common Shares and Class B Common Shares is as follows:

	Class A		Class B	
Balance, August 31, 1981	13,023,766	$29,891,247	5,920	$ 1,049
Cancellation of acquired shares of Daketh	(1,262,250)	(2,897,621)		
Shares redeemed			(4,400)	(780)
Issued pursuant to the Employee Stock Purchase Plan	23,163	177,380		
Balance, August 31, 1982	11,784,679	$27,171,006	1,520	$ 269

A wholly-owned subsidiary, Daketh Ltd. and Systemhouse amalgamated on September 1, 1981 and the 1,262,250 shares of Systemhouse owned by Daketh were cancelled.

By special resolution, shareholders will be asked to approve the exchange of Class B Common shares for Class A Common Shares on a share for share basis and the cancellation of the class of Class B Common Shares.

Pursuant to the Employee Stock Purchase Plan, designated employees are eligible to acquire Class A Common Shares within certain limits from the Trustee. The Company may at its option advance funds to the Trustee to acquire shares in the open market or to issue Class A Common Shares to meet the requirements. The shares are held in Trust for the employee until paid for in full.

Under a stock option plan, certain employees have been granted the right to acquire Class A Common Shares of the Company at prices which were equal to the closing market price on the date the options were granted. Under the terms of this plan, an employee becomes eligible to acquire a portion of the optioned shares at the end of each three month period following the granting of the option. At August 31, 1982, 239,060 share options were outstanding at prices ranging from $3.25 to $9.13 per share and expiring on various dates up to May 21, 1985 of which 87,385 were eligible to be exercised.

12. **Income tax information**

Systemhouse Ltd. and a wholly-owned United States subsidiary have losses for tax purposes eligible to be carried forward, for which no tax benefit has been recognized, of approximately $27,000,000 of which $16,000,000 expires at various dates up to 1987, $9,000,000 expires at various dates up to 1997 and the balance may be carried forward indefinitely.

In addition the Company has available investment tax credits of approximately $2,000,000 available to reduce future Canadian income taxes, which credits expire at various dates up to 1987.

13. **Segmented information**

In the opinion of management, the Company operates primarily in two industry segments: the custom design, development and implementation of information systems, and the development and acquisition, marketing, delivery and support of proprietary software products.

The Company carries on business principally in two geographical segments, Canada and the United States. Canadian based export sales amounted to approximately $1,350,000 (1981 — $1,800,000).

Segmented operating profit (loss) is defined as net sales less cost of salaries and direct overheads of the business segment exclusive of corporate expenses not allocated to business segments, depreciation and amortization and interest.

Segmented Information
Year Ended August 31

	1982				1981			
	Custom Design	Proprietary Products	Eliminations	Consolidated	Custom Design	Proprietary Products	Eliminations	Consolidated
				(in thousands)				
Segmented Revenue								
Canada	$ 31,911	$ 8,179	$ 6,717	$ 33,373	$ 23,194	$ 8,387	$ 3,690	$ 27,891
United States	3,034	2,837	—	5,871	1,385	—	—	1,385
	$ 34,945	$ 11,016	$ 6,717	$ 39,244	$ 24,579	$ 8,387	$ 3,690	$ 29,276
Segmented operating profit (loss)								
Canada	$ (1,183)	$ 613	—	$ (570)	$ 2,633	$ 2,184	—	$ 4,817
United States	(404)	(439)	—	(843)	381	—	—	381
	$ (1,587)	$ 174	$ —	(1,413)	$ 3,014	$ 2,184	$ —	5,198
Less:								
Investment income				589				1,265
Office and general expenses				(6,017)				(3,181)
Interest expense				(2,397)				(163)
Depreciation and amortization expense				(3,176)				(488)
Income tax recovery (expense)				214				(569)
Non-recurring items and write-offs				(17,332)				
Net income (loss) for the year				$ (29,532)				$ 2,062
			Other				Other	
Identifiable assets								
Canada	$ 7,860	$ 21,381	$ 6,371	$ 35,612	$ 9,219	$ 22,444	$ 9,848	$ 41,511
United States	1,281	3,924	358	5,563	626	—	—	626
	$ 9,141	$ 25,305	$ 6,729	$ 41,175	$ 9,845	$ 22,444	$ 9,848	$ 42,137
Depreciation and amortization								
Canada	$ 176	$ 2,150	$ 682	$ 3,008	$ 276	$ 177	$ 35	$ 488
United States	7	161	—	168	—	—	—	—
	$ 183	$ 2,311	$ 682	$ 3,176	$ 276	$ 177	$ 35	$ 488

14. **Related party transactions** (see also notes 1 and 11)

During the year the Company incurred fees of $145,000 (1981 — $141,000) for management services provided by its parent company, Kinburn Capital Corporation. At August 31, 1982 the Company had intercompany balances of accounts receivable and work-in-process totalling approximately $280,000 from the Kinburn group of companies.

15. **Contingencies**

(i) The Company has contractual arrangements with its major suppliers of computer hardware, which set out expected discounts to be earned based on projected purchases for a specific period of time. As the Company's actual sales performance was substantially short of projections, it has a contingent liability of approximately $110,000. As the Company enjoys a continuing and growing relationship with these suppliers, it is management's opinion this amount will not be payable since these arrangements are normally subject to renegotiation with the anticipation of expanded future potential business.

(ii) The Company has been subject to litigation related to alleged default on completion of a project, which would result in a liability over and above amounts recorded in the accounts of approximately $600,000. The Company contends the work was substantially performed and is seeking recovery of costs over and above the contract price. Based on the advice of legal counsel, management believes no liability, over and above the amount accrued in the accounts, will result.

(iii) Subsequent to August 31, 1982, the Company decided to co-locate its Corporate head office with the Ottawa branch office. The lease commitment for the vacated premises over a four year period amounts to approximately $1,823,000. As this space represents a premium commercial location at rates substantially below current market rates, management expects an early sublet of these premises with full recovery of the costs of related leasehold improvements.

(iv) The Company is negotiating with a provincial hospital association and the relevant ministry for the recovery of a claim, included in accounts receivable, of approximately $100,000. The Company has obtained legal advice on this matter and believes the amount in question is recoverable from the parties and that no material loss will result.

Any adjustments upon the resolution of these matters will be accounted for in the Statement of Operations for the period in which they occur.

Name and Municipality of Residence	Office in the Company	Principal Occupation
John G. Bryden Fredericton, New Brunswick	Director	President, Paperboard Industries Corporation and Director of Kinburn Capital Corporation
Roderick M. Bryden Ottawa, Ontario	Chairman of the Board, President and Director	Chairman of the Board and President of the Company and President, Chief Executive Officer and Director of Kinburn Capital Corporation
John R. Davies Vienna, Virginia	Director	President and Chief Operating Officer, Systemhouse Inc.
John C. Hardy* Toronto, Ontario	Director	President, Charterhouse Development Canada Limited and Director of Kinburn Capital Corporation
W. Alan Macfarlane Nepean, Ontario	Director	Comptroller of Kinburn Capital Corporation
Charles E. O'Connor, Q.C.*	Director	Partner in the law firm of Gowling & Henderson
Donald W. Paterson* Toronto, Ontario	Director	Vice-President and Director, Wood Gundy Limited
C. Ian Ross Ottawa, Ontario	Secretary and Director	Vice-President, Finance and Development, Secretary and Director of Kinburn Capital Corporation and Secretary of the Company
W. Glen St. John* Nepean, Ontario	Director	President and General Counsel, Bytec Management Corporation
Victor B. Allen Spencerville, Ontario	Vice-President	Vice-President, Commercial Systems
Peter S. Crombie St. Pascal de Baylon, Ontario	Vice-President	Vice-President, Finance
J. Michael Fox Vancouver, British Columbia	Vice-President	Vice-President, Pacific Region
Brian E. Greenleaf Carp, Ontario	Vice-President	Vice-President, Research & Development
David J. McConomy Ottawa, Ontario	Vice-President	Vice-President, Healthcare Systems
Amy-Lynne Porter Williams Ottawa, Ontario	Assistant-Secretary	Corporate Counsel
Peter A. Sandiford Ottawa, Ontario	Vice-President	Vice-President, Canadian Operations
Douglas W. Seaborn Ottawa, Ontario	Vice-President	Vice-President, Technical Systems
Stanley Udaskin Nepean, Ontario	Vice-President	Vice-President, Corporate Comptroller

*Member of the Audit Committee of the Board of Directors

Corporate Offices

Systemhouse Ltd.
Metropolitan Life Building
99 Bank Street
Ottawa, Ontario
Canada
K1P 6B9

(613) 236-9734

Systemhouse Inc.
Fairfax Square
9900 Main Street
Fairfax, Virginia
U.S.A.
22031

(703) 385-0970

Registrar and Transfer Agent:	Auditors:	Corporate Bankers:	Stock Exchange Listing:
Canada Trust Company, 110 Yonge Street Toronto, Ontario M5C 1T4	Clarkson Gordon 160 Elgin Street Ottawa, Ontario K2P 2C4	Bank of Montreal 144 Wellington St. Ottawa, Ontario K1P 5T3	Toronto Stock Exchange Montreal Stock Exchange