annual report 1998

OPEN TEXT Intranet

fast forward

"In a market that has become notorious for intense competition and rapid change, Open Text has proven the value of innovation and discipline in pursuing customer value. [Open Text's] efforts to define the markets for integrated information management and the active electronic document have been well ahead of the curve. [Its] continuing growth has set the benchmark for document management software suppliers as the market moves beyond its early stages and into a new status as an accepted enabler for electronic business processes."

Thomas M. Koulopoulos
The Delphi Group, in presenting the
1998 Delphi Market Development Award
to Open Text

Tom Jenkins, Chief Executive Officer

company in motion

1998–A Year of Continued Achievements and Record Growth

To Our Shareholders,

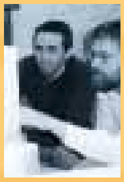
Last year we set some challenging goals: “capitalizing on opportunities in the expanding intranet software market. . .continued investments in technology…and achieving solid profits.”

We are very happy to report that we accomplished what we set out to do. Fiscal Year 1998 was another year of record growth in revenue and market share. Among our many achievements, we are especially proud of becoming a profitable company and delivering 100 percent revenue growth.

This achievement did not go unnoticed by the industry. For the second consecutive year, The Delphi Group, a strategic management and technology consulting firm specializing in knowledge and workflow management for Global 2000 corporations, named Open Text the leader in market development and awarded the Company its Market Development Award for achieving the most rapid and greatest revenue growth.

INCREASING FINANCIAL STRENGTH

Open Text’s total revenue for Fiscal Year 1998 was U.S. $45 million, double the revenue for Fiscal Year 1997. The Company’s earnings’ curve demonstrates a steady upward trend, marking our first year of profitability (when excluding one-time charges for the year’s two acquisitions). Open Text completed its fourth quarter of fiscal year 1998 with $2.4 million of profit (net of one-time charges), on $16 million in revenue, our highest quarterly profit ever.

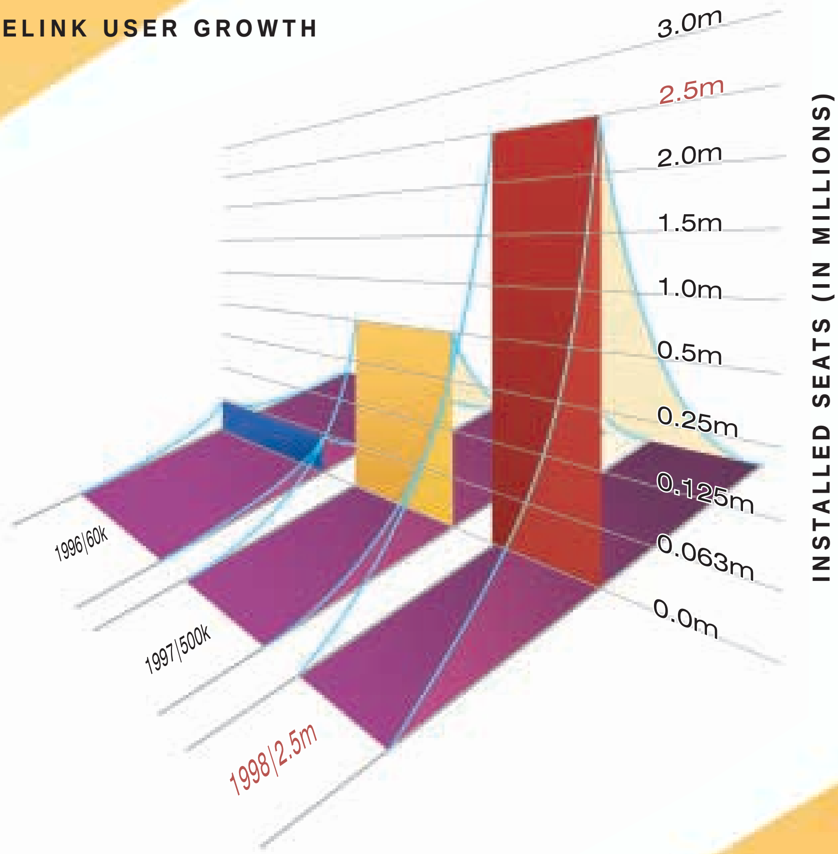

"[Open Text] continues to **lead**
in defining **what document**
in an enterprise-wide

GAINING BROAD MARKET ACCEPTANCE

Fiscal Year 1998 financial results reflect the continued move toward Web-based business computing by organizations across nearly every industry, and Open Text's ability to be first to market with a ready-to-deploy, integrated business software solution for intranets and extranets. Our investment in technology clearly paid dividends. Shipping since June, 1998, Livelink® version 8, also known as Livelink Collaborative Knowledge Management, is defining what a Web-based work environment should be.

With Livelink version 8, we not only fulfilled our vision of Putting the Web to Work™,

LIVELINK USER GROWTH



The Open Text product family has 2.5 million users in 3,400 corporations. With a 42.7 percent market share and a 48.5 percent share of new user growth, according to IDC[2], Open Text is the clear leader in the emerging knowledge management market.

2 International Data Corp 1997 Report #14689

the way management means intranet environment,"

Bruce Silver, Industry Analyst, KMWorld Magazine

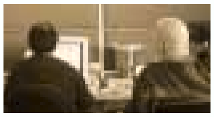
but also successfully expanded it to deliver the market's only comprehensive, Web-based collaborative knowledge management system for the enterprise. Livelink's new architecture consists of the robust document management and search and retrieval modules that our customers have come to trust, project-based virtual collaboration, and business process automation for a complete, easy-to-use knowledge and work environment for the entire enterprise.

Livelink continues to gain widespread acceptance in the market. In a recent product review, Doculabs, an independent advisory firm specializing in information management technologies, gave Livelink high marks. "Open Text has kept Livelink at the vanguard of emerging technology trends…making it truly a next-generation product," Emeka Ojukwu, Systems Analyst, Doculabs.

The market acceptance of Livelink spans all kinds of industries from pharmaceutical and manufacturing to financial services and telecommunications. Organizations as diverse as Molson Breweries and the International Standards Organization (ISO) are using Livelink to address a wide array of business applications from customer support Help Desks and partners extranets to regulatory compliance and Year 2000 project management. For hundreds of Open Text customers, new and existing, Livelink Collaborative Knowledge Management is already an enterprise

"[Open Text and IDI]…is a powerful combination,"

Ian Campbell, Director of Collaborative and Intranet Computing, International Data Corporation



standard and serves as the infrastructure for global work-group communication, and information and process management. The results are significant and quantifiable—with independent case studies by International Data Corporation indicating as high as 684% return on investment in five months at AT&T Wireless.

The Customer Highlights section provides proof again that Livelink is applicable for virtually any business process and validates our strategy of targeting enterprise collaboration for Global 2000 organizations.

BROADENING TECHNOLOGY BASE AND PRODUCT OFFERINGS

Another of the Company's core business strategies is to strengthen our technology base and product offerings through acquisitions of businesses with complementary technologies. In Fiscal Year 1998 we successfully acquired the assets of Campbell Services Incorporated and Information Dimensions Incorporated (IDI). With Campbell Services' OnTime™ product, the Company gained large scale group scheduling technology. OnTime allows users to—in real-time and from their desktops—coordinate meetings with colleagues who are in different time zones and

Information Dimensions

"[IDI,] the pioneer in the EDMS (electronic document management systems) industry is now part of the family that has been called the fastest growing company in the EDMS market,"

Ronni T. Marshak, Patricia Seybold's Workgroup Computing Report

who have demanding and conflicting schedules.

BASIS® and TECHLIB® are used to deploy applications for specialized corporate and government information centers. These applications often feature web-based card catalogs of internal proprietary information and externally purchased information, document archives, and resource circulation, retention, and usage tracking.

OnTime, BASIS and TECHLIB enable the Company to add depth and breadth to the Livelink product family. As we go forward, we plan to offer and support them as separate products and to integrate them with Livelink for seamless access.

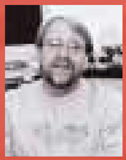
EXPANDING GLOBAL PRESENCE AND GAINING MARKET SHARE

Acquisitions also enable us to expand the Company's global presence. The IDI acquisition added three European locations to Open Text's market base: London, Paris, and Frankfurt. In addition, the combined companies now boast 2.5 million users in 3,400 corporations. With a 42.7% market share and a 48.5% share of new user growth, according to IDC[1], Open Text is the clear leader in the emerging knowledge management market.

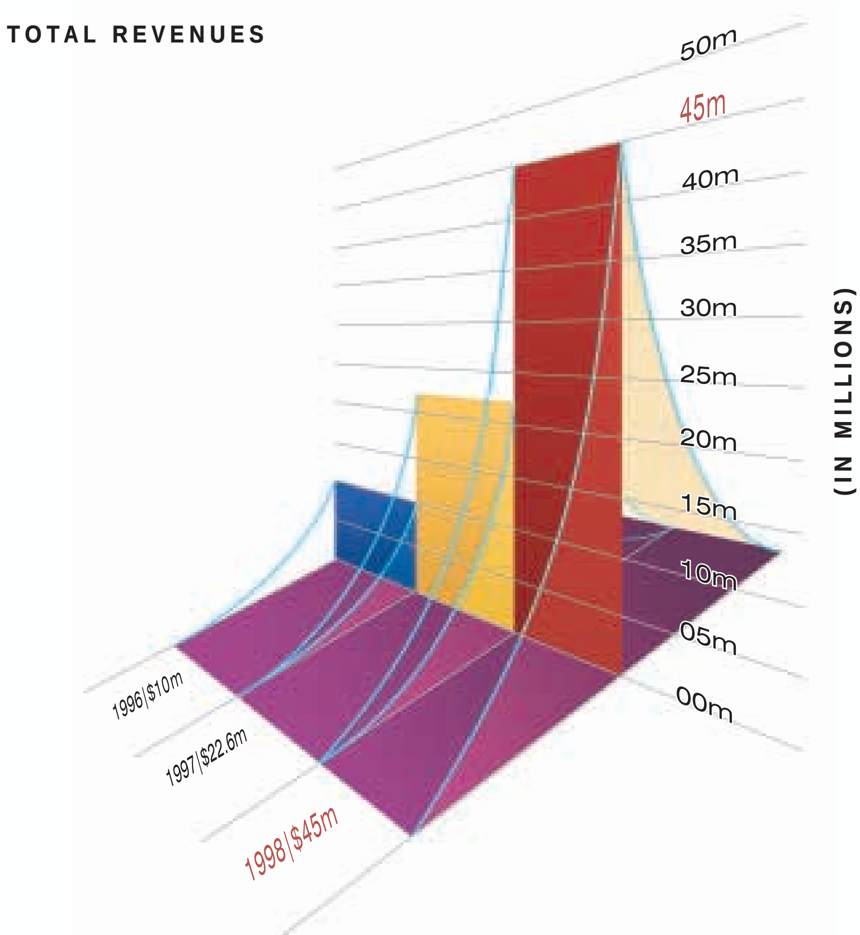
INCREASING MARKET PENETRATION

Forming strong technology and strategic business alliances is also helping the Company to increase brand recognition

[1] International Data Corp 1997 Report #14689



and expand our customer base. In Fiscal Year 1998, Open Text added Adobe, Cambridge Technology Partners, Hewlett Packard, and Siemens, among others, to our growing list of industry partners. These partnerships provide increased opportunities for mutually leveraging existing distribution channels and for joint-sales and marketing efforts. The most interesting aspect of these partnerships is that all of the partner companies mentioned here are also our customers—many deploying Livelink in enterprise-wide,



mission-critical applications—lending credibility and attesting to the benefits of Open Text solutions. As a leading international management consulting and systems integration firm, Cambridge Technology Partners specializes in providing its clients with best technology practices. Cambridge uses Livelink Collaborative Knowledge Management for enterprise-wide collaboration, project management and data access.

In Fiscal Year 1998, we also launched the Livelink Affinity Partner program. The program is designed to build strong relationships with and support for Open Text distributors, value-added resellers, system integrators, solution providers and development partners who incorporate Open Text software into their solutions. Having Affinity partners in a broad range of industries provides Open Text with greater opportunity and ability to penetrate specific vertical markets and distinct customer groups.

In addition, we launched Livelink Online, a subscription service that offers corporate customers reliable, high-performance intranet hosting services based on Livelink. The service, available for a monthly fee through Open Text and business partners such as Hewlett Packard and GE Information Services, enables the Company to reach a broad base of companies who want the full benefits of Livelink intranet knowledge management, but do not wish to incur administrative and implementation costs.

MOVING FORWARD

Looking back over the year: our core technology is in place, and our market share and profitability curves are on the upswing.

Going forward, our objectives are to deliver strong revenue growth, sustain and improve profitability, increase market penetration and brand recognition, and continue to lead with product innovation.

We thank you, our shareholders, for your support through our growth. We are grateful to our dedicated staff worldwide for helping Open Text reach these milestones. We welcome our colleagues in the BASIS and OnTime groups and look forward to working together to achieve our goals in the year ahead.

Sincerely,

Tom Jenkins
Chief Executive Officer

For the second consecutive year, The Delphi Group named Open Text **the leader in market development** and awarded the Company its Market Development Award to Open Text Corporation for achieving the **most rapid and greatest revenue growth**.

Many more awards and accolades echoed similar messages…

KMWorld

that
the Company

InformationWeek magazine hailed
Open Text as one of the
Top 15 Intranet Software Companies.

And in a **recent product review**, Doculabs,
an independent advisory firm specializing in
information management technologies,
gave Livelink high marks. **"Open Text
has kept Livelink at the vanguard of
emerging technology trends…making it truly a
next-generation product."**

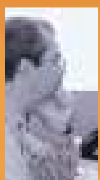
Emeka Ojukwu, Systems Analyst, Doculabs

IDG's WebMaster magazine placed
Open Text's own intranet on the publication's list
of the **Top 50 Intranet Sites in the World**.

Computer Reseller News gave its
Editor's Choice Award to Open Text for
Livelink's **technical prowess** and the
Company's **channel program merits**.

Upside magazine placed Open Text on its **Up-and-Coming Company** list.

magazine cited Open Text as one of the **“ten high-impact companies made a difference”** and placed among the **“ones to watch.”**



product for change

Livelink Collaborative Knowledge Management—Changing How Organizations Conduct Business

The Internet is having an astounding effect on virtually every industry—from financial and manufacturing to government and telecommunications—and it is dramatically changing how business is conducted today. Corporations are discovering, however, that intranets and Web pages alone do not solve business problems and that to gain competitive advantage, it takes Web-based business software application programs.

Look at any business process, you'll find that information is at the heart and you'll find teams organizing around projects, using and transforming knowledge and experience into tangible, measurable business results.

LINKING PEOPLE, INFORMATION AND BUSINESS PROCESSES

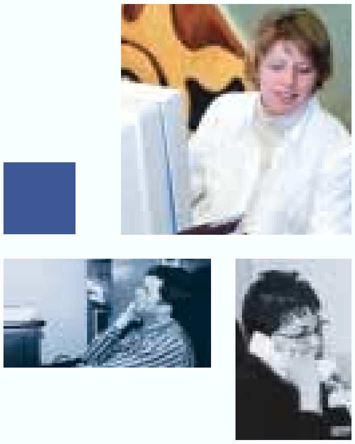
Open Text was first in its vision—and delivery—of a software application—Livelink Collaborative Knowledge Management—that uses the power of the intranet to manage knowledge, and to support cross-enterprise collaborative teams and complex business processes. In addition to the ability to capture knowledge, and manage, access and share information, people need tools that enable them to act on the knowledge that's being delivered to their desktops. Livelink not only links people to information, it also links people to people, and people to processes, providing a comprehensive collaborative work environment that allows them to capitalize on their collective knowledge. And Livelink delivers its rich functionality off-the-shelf and through standard Web browsers for unprecedented ease and cost savings.

BRINGING ENTERPRISE KNOWLEDGE AND COLLABORATION TO THE DESKTOP

Livelink's powerful functionality is fully integrated. Virtual Team Collaboration features, including threaded discussions and enterprise scheduling, allow globally distributed teams to support complex collaboration efforts. Robust Knowledge Library Management securely stores and manages terabytes of information of every type. Powerful Information Retrieval functionality ensures that users access correct versions of, and the most up-to-date, information. Livelink Change Agents and Livelink Channels bring changing enterprise and project news and information to users' desktops in real-time, while features such as project and workflow status, audit trails and LiveReports provide real-time intelligence on enterprise activities. Livelink Forms and the

"The **speed** at which pages are built in **Livelink** and the **completeness of the information** presented are sure to be a boon to the knowledge management industry."

Eddie Correia, Senior Technical Editor, Computer Reseller News



"The difference between Web-centered
"Web-enabled" applications is
to deploy intranet applications. **Open**
from having **been there first** and see
accept this

graphical Workflow Designer support, manage and automate business processes of any complexity.

In addition to a comprehensive set of functionality, Livelink's other market advantage is its open architecture. Livelink is Web-based for easy deployment, minimal administration and scalability across tens of thousands throughout a global enterprise and across partner organizations. Because it supports all industry standards, customers find that Livelink integrates easily with their existing computing environments.

Livelink is modular. While it provides an extensive set of core functionality, Open Text or third-party vendors can also develop solutions for specific market or customer requirements using the Livelink Application Program Interface.

Three workspaces—Enterprise, Project and Personal—provide users with easy-to-use, fingertip access to: enterprise knowledge, real-time business intelligence, extranet and Internet information, project libraries, work in progress and tasks, virtual collaboration features such as threaded discussions, and powerful business process tools.

applications like **Open Text's Livelink** and other
becoming ever more apparent as corporations begin
Text will continue to benefit
increasing success as buyers come to
universal view of business applications."

Tony McKinley, Author of "From Paper to Web,"
an Amazon.com Internet Expert Editor's Book Pick

ADDRESSING A BROAD RANGE OF BUSINESS CHALLENGES

With Livelink, organizations can address a broad range of business challenges, from global project management, such as Year 2000, and enterprise knowledge access to customer support and regulatory compliance. They are able to leverage their most valuable resources—people and knowledge. Hundreds of Global 2000 organizations use Livelink to achieve major business objectives: unify globally distributed teams, capture market opportunities more quickly, accelerate product cycles, improve customer and partner relationships, or alter business strategies faster and with greater ease. An increasing number of these organizations are also using Livelink as an enterprise-wide Information Technology infrastructure, where each department can implement a Livelink solution to address its unique business objectives and requirements.

solutions in action

Putting Knowledge to Work™ in Organizations Around the World

THANKS TO LIVELINK, THE INTERNATIONAL STANDARDS ORGANIZATION SAVES TIME AND EFFORT THROUGH THE EFFECTIVE MANAGEMENT OF THE ENTIRE GLOBAL STANDARDIZATION PROCESS

The International Standards Organization (ISO), a worldwide federation of national standards bodies from over 120 countries, develops standards for facilitating international commerce. Complying with ISO standards, such as the ISO 9000 standard, is imperative for firms competing in today's global economy. Companies in virtually every kind of business, from chemical to information technology, are required by their customers to comply with particular ISO standards as a prerequisite to doing business. Developing, maintaining and distributing ISO standards, however, involve a great deal of effort—both for ISO and the companies subject to compliance.

The ISO Central Secretariat is using Livelink to effectively manage the entire standardization process, from development to distribution. Livelink met the ISO's tough requirements. Livelink provides the long-term foundation for capturing knowledge, which the ISO sought. Livelink is Web-based to greatly ease the process of distributing information over the ISO extranet—soon to be one of the largest in the world with thousands of organizations worldwide. Customers have instant access to information directly from their Web browser and print-on-demand capability, which significantly reduces companies' operational costs.

Livelink enables ISO to track thousands of projects, handle hundreds of thousands of contributors, maintain tens of thousands of existing standards in three languages,

gather international consensus for the 1,000 new standards it publishes annually, and very importantly, to ascertain problems in the process and ensure their swift resolution.

USING LIVELINK, AT&T WIRELESS FOSTERS ENTREPRENEURIAL SPIRIT TO GAIN COMPETITIVE ADVANTAGE AND ACHIEVES A 684% RETURN ON INVESTMENT

Competition in the cellular market is at an all time high. To gain competitive advantage, AT&T Wireless believes it takes entrepreneurial spirit and a strong focus on developing new and innovative services and products. The company uses Livelink to support that spirit in its Product Development group.

Livelink helps the firm manage the documents, collaboration, information access and work processes associated with bringing a new product or service to market. With all existing product and project documents stored securely in Livelink, project teams have fingertip access to specifications, operation guides, and more information, which they can re-use and update. Team members coordinate, collaborate and follow process workflows through Livelink. And field personnel have real-time access to all product and service information from their

"The Livelink environment is sometimes **a virtual project space**, and the potential **uses are virtually** from everywhere

Web browsers.

Challenges the group faced before deploying Livelink—re-inventing the wheel, delays in field notification, incorrect versions of information—have now been completely eliminated for significant improvements in productivity and reductions in operational costs. According to an independent case study conducted recently by IDC, AT&T Wireless' Livelink deployment had an overall return on investment of 684% in five months time.

COLLABORATION THROUGH LIVELINK SAVES TRANSCANADA PIPELINES MILLIONS OF DOLLARS

TransCanada PipeLines Limited, a $21 billion Canadian-based energy company with customers throughout North and South America, and Europe, implemented Livelink to manage the documents associated with regulatory approval.

Amid industry changes and corporate growth, TransCanada discovered how versatile Livelink really is. Because Livelink has complete knowledge and collaboration capabilities, TransCanada easily expanded its application from a document management solution to an enterprise-wide knowledge management infrastructure, with myriad benefits: Faster time to regulatory board and to market. Higher-quality filings and substantial cost reductions.

In one pipeline construction proposal requiring an extensive filing with the U.S. Federal Regulatory Commission, TransCanada's 30-member project team was able to complete the process in half the time normal for similar projects. With a project that consumed more than one million dollars in budgeted funds every month, this time savings resulted in substantial cost savings.

In the pipeline operations management group, teams from all areas of operations

described as providing
but the **benefits are very real**,

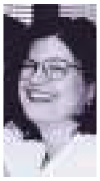
jumping out at us
we look."

Scott Chate, TransCanada Pipelines

successfully collaborated on, coordinated and implemented several key safety and efficiency initiatives. Because Livelink brought together people scattered at facilities across more than 4,000 km of pipeline, from multiple time zones and three work shifts, it contributed to TransCanada's ability to successfully exploit market opportunities which enhanced the company's bottom line by tens of millions of dollars.

LIVELINK FUELS CAMBRIDGE TECHNOLOGY PARTNERS' RAPID GROWTH WITH INSTANT, ENTERPRISE-WIDE ACCESS TO BUSINESS INTELLIGENCE

As an international management consulting and systems integration firm, Cambridge Technology Partners specializes in the rapid delivery of fixed-time/fixed-price, integrated business solutions to its customers. This requires efficient and effective internal business processes, such as global collaboration and knowledge retrieval. As the firm expands at a rapid rate, several goals have become paramount: To capture and leverage lessons learned, bring new consultants up to speed quickly, and deploy a knowledge management solution that can grow with the company. Livelink effectively met Cambridge Technology Partners' requirements.



"[We] support **200,000 people**
all working with different
was **the best**
provides **full access** via [Web]
knowledge management

By deploying Livelink across its worldwide operations of 4,100 employees in 52 offices, the firm's consultants have easy, Web-based access to information from global data sources, including content from file servers, project databases, mail lists and newsgroups, and they can collaborate and share best-practice information across the enterprise. Livelink won Cambridge's confidence because it is scaleable across an organization of any size, has the ability to manage terabytes of information, and the capability to support even the most complex and demanding business processes. Livelink is enabling Cambridge to manage six times more data than its previous system, and it is directly contributing to the firm's success in delivering quality solutions to its customers.

AT OSRAM, LIVELINK IS IMPROVING PRODUCTIVITY AND CUSTOMER SATISFACTION WITH REAL-TIME KNOWLEDGE, AND DELIVERING A 210 PERCENT RETURN ON INVESTMENT

OSRAM is one of the leading lamp manufacturers in the world, supplying lighting systems to the automotive and photographic industries. Specialized applications along with the need for increased electrical efficiency for all applications, has forced lighting manufacturers to turn to very sophisticated materials and technology to meet customer demands. One strategy the company is using to maintain its market dominance is to provide superior customer support, with Livelink at the heart of its corporate intranet.

Prior to Livelink, the customer support challenge was in the volume and depth of technical questions customers were asking. Since the company's information was paper-based, the support process was a heavy burden on both sales and technical staff. There were growing delays in responsiveness as the staff spent hours trying to

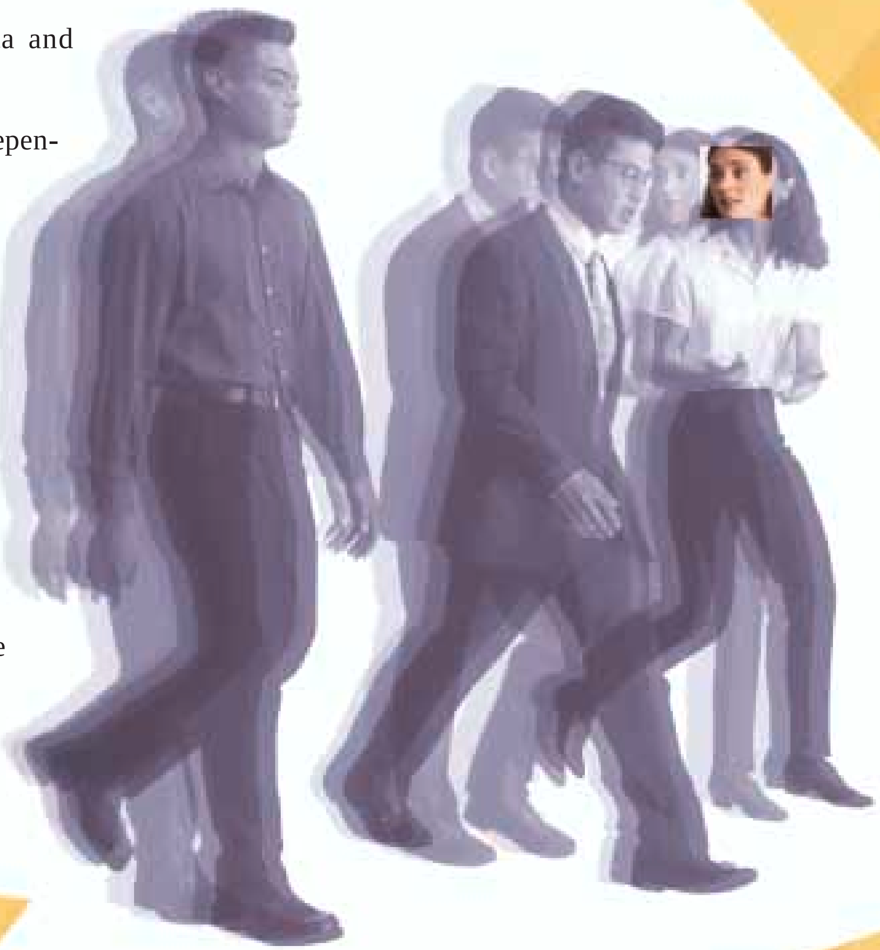
from different companies and cultures, tools and practices...Livelink **solution** for our requirements...Because Livelink browser, we can provide collaborative services very quickly."

Pasi Rinta-Filppula, Director of Information Processing Services, ISO Central Secretariat

find information. Once found, there was no guarantee that the information was correct or up-to-date.

Today, authors use Livelink to manage and publish technical documents directly to the corporate intranet. Livelink automatically creates a searchable index. Sales representatives, technical support staff—in fact all employees—from any of OSRAM's worldwide locations now obtain technical data and answers in real-time.

Results of a recent independent case study conducted by IDC indicate that OSRAM has improved customer satisfaction, increased staff productivity, gained additional sales, and achieved a 201 percent return on investment in 16 months and savings to the tune of more than one million dollars over three years with Livelink.



OPEN TEXT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS END
JUNE 30, 1998, 1997 AND 1996

OPEN TEXT Intranet

Prepared in accordance with the Generally Accepted Accounting Principles in the U.S.

UNITED STATES GAAP

Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report constitute forward-looking statements. These forward-looking statements include, without limitation, statements in the CEO's letter under the heading "Moving Forward" and in the "Management's Discussion and Analysis" under the heading "Year 2000 Compliance", statements indentified by a cross reference to this section, and other statements concerning future plans, objective or anticipated results of operations or product and service initiatives of the Company and anticipated developments or conditions in the industry and the economy generally. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to: the Company's limited operating history and losses, increases in expenses, unproven acceptance of the Company's products and services, risks involving the management of growth, competition and new entrants in the market for the Company's products and services, product development risks and risks of technological change, liquidity and capital resources and the other risks and uncertainties described in filings with the United States Securities and Exchange Commission and the Ontario Securities Commission. The Company does not undertake to update forward-looking statements if conditions or management's estimates or opinions change.

OVERVIEW

Open Text develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's principal product line, *Livelink*, is a scaleable collaborative network application that integrates several modular engines including, but not limited to, search, collaboration, workflow, group calendaring and scheduling, and document management. The Company's search engine enables users to transparently search vast amounts of data stored in a wide variety of formats and in disparate locations, including World Wide Web sites. The Company's collaboration, workflow and document management engines enable users to establish and manage knowledge and document-oriented collaborative work processes that involve a diversity of workers, computing platforms and data. The Company's group calendaring and scheduling enables users to quickly schedule personal and group meetings, reserve conference rooms and add tasks to other users' lists of things to do. In addition, the Company's products enable organizations to flexibly manage the distribution and availability of information. The Company has focused its efforts on its intranet-related software and services to provide collaborative knowledge management solutions for use on intranets.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in the light of the risks, expenses and difficulties frequently encountered by companies seeking to introduce new products into new and rapidly evolving markets. To address these risks and uncertainties, the Company must, among other things, successfully market its existing products and technologies and complete and introduce products and product enhancements under development in a timely manner, continue to upgrade and commercialize its technologies, and attract, retain and motivate highly qualified personnel and manage rapid growth. There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in each of its last five fiscal years and as at June 30, 1998, had an accumulated deficit in shareholders' equity of $83.2 million. The Company attained operating profitability for the last three quarters in fiscal 1998 however there can be no assurance this can be sustained.

During 1996, the Company completed the Acquisitions of seven businesses. The results of operations of the Acquired Businesses are included in the Company's results of operations from the dates of the Acquisitions. The Acquisitions have been accounted for under the purchase method of accounting and resulted in the allocation of an aggregate of approximately $30.5 million to intangible assets during the year ended June 30, 1996. Of this amount, an aggregate of $27.6 million was allocated to purchased research and development and, under US GAAP, was charged immediately to expense.

During 1998, the Company completed the acquisitions of OnTime and Information Dimensions. The results of operations of the Acquired Businesses are included in the Company's results of operations from the dates of the Acquisitions. The Acquisitions have been accounted for under the purchase method of accounting and resulted in the allocation of an aggregate of approximately $28.0 million to intangible assets during the year ended June 30, 1998. Of this amount, an aggregate of $24.1 million was allocated to purchase research and development and, under US GAAP, was charged immediately to expense. See Note 16 of Notes to Consolidated Financial Statements for additional information concerning the Acquisitions.

The Company's strategy in acquiring certain of the Acquired Businesses was principally to acquire technology which the Company believed could be adapted and integrated with the Company's existing products and technologies to develop information management software solutions applicable to intranets and the Internet. See Note 16 of Notes to Consolidated Financial Statements. In order to complete the development of these products, the Company has pursued several significant research and development projects. The Company substantially modified and expanded Odesta's *Livelink* technology to render it compatible with Internet protocols and with the Company's information search and retrieval technology. The initial release of an integrated product took place in the spring of 1996. Further integration and improvements to the product continued to require the efforts of a substantial portion of the Company's research and development personnel. The Company has integrated, and has plans to continue to integrate, technologies acquired with certain of the Acquired Businesses into *Livelink*. The cost of these integration activities are included in research and development expenses. The Company's estimates of the feasibility of research and development projects and the time and resources necessary to complete them are subject to a variety of uncertainties inherent in software research and development projects and may change as the projects proceed. See "Forward-Looking Statements". There can be no assurance that the Company will successfully complete all or any of these research and development projects in a timely manner or at all.

A number of competitive developments in certain of the Company's markets at the end of fiscal 1996, together with the recognition of the need to integrate and consolidate the activities of the Acquired Businesses resulted in a decision by the Company to focus its efforts on its *Livelink* product line that has been integrated with the Company's search technology and modified to be compatible with Internet protocols. After its initial release, customer interest in the *Livelink* was substantial. Initial customer installations, however, proceeded more slowly and required more resources than anticipated as the Company resolved installation issues and retained and trained newly-hired employees and employees of the Acquired Businesses to support full scale *Livelink* deployments. Further, the Company concluded that the market for intranet software presented an excellent market opportunity, but the likelihood of intense competition was foreseen. As a result, the Company concluded that focusing its technical, research and development, sales and marketing and management resources on the *Livelink* product line would enhance the product's market penetration.

In order to concentrate on the intranet market opportunity for *Livelink*, the Company stopped marketing the *PC Search* product developed from technology acquired with Intunix and stopped offering its *Open Text 5* search engine as a stand-alone product. As a result of intensely competitive pricing practices of competitors with respect to Internet browsers and access software, the Company became unable to charge a price for *Internet Anywhere* (the Company's Internet access software) that covered the cost of sales of the product. Accordingly, the Company ceased marketing the product. The Company also determined that the level of expenditure and commitment of management and technical resources required to compete for advertising revenues with several well-financed providers of Internet search services was not justified by the advertising revenues being generated by the *Open Text Index* or likely to be generated in the future. Accordingly, the Company de-emphasized the development of the *Open Text Index* as a means of generating advertising revenue and has transformed the product into a business specific search index called *Livelink* Pinstripe.

As a part of its integration of the activities of the Acquired Businesses, and focusing its activities on its intranet-related products and services, the Company incurred a pre-tax restructuring charge of $3.4 million during the quarter ending June 30, 1996. Included in this charge was a $1.3 million expense relating to the phase out of *Internet Anywhere* retail activity, and a provision of $2.1 million related to fixed assets and leases involved consolidation of operations. During the quarter ending September 30, 1996, the Company announced the termination of a number of employees, which resulted in a charge to income of $650,000 for severance compensation and benefits in accordance with US GAAP requirements. The restructuring was completed during the fourth quarter of fiscal 1997. The amount of the restructuring charges were equal to the costs of the restructuring.

On June 3, 1998 the Company acquired certain of the assets and liabilities of Information Dimensions for approximately $8.1 million which consists of cash paid on closing of $7.6 million and an accrual of $500,000 for contingent consideration that the Company expects it will be obligated to pay to the vendor one year from the closing date based on the delivery of a special purpose balance sheet of the assets and liabilities assigned as at May 31, 1998. In addition, the Company accrued acquisition costs of $8.2 million. See Note 16 of Notes to Consolidated Financial Statements. The operations of Information Dimensions have been included in the financial statements from the purchase date.

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately $8.3 million, including acquisition costs of $1.6 million, in a transaction which has been accounted for under the purchase method. See Note 16 of Notes to Consolidated Financial Statements. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of $6.2 million was paid at closing. Cash in the amount of $268,000 was paid prior to June 30, 1998 based on the final determination of OnTime's working capital.

The total of the acquisition accrurals for Information Dimensions and OnTime is $9.8 million. Of that amount, $2.0 million are direct costs of the acquisitions and $7.8 million represents costs to exit certain activities of Information Dimensions and OnTime. The costs to exit certain activities includes costs of relocation, costs to discontinue the development of certain products and involuntary termination costs of certain employees of Information Dimensions and OnTime. The company expects to communicate its involuntary termination plans to the effected employees in the first quarter of fiscal 1999 and expects to have all components of the costs to exit certain activities completed by the fourth quarter of fiscal 1999.

The Company continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, compliment or are otherwise related to the Company's current business or products. The Company also considers from time to time opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. Such acquisitions, investments, joint ventures or other business initiatives may involve significant commitments of financial and other resources of the Company. There can be no assurance that any such activity will be successful in generating revenue, income or other returns to the Company, or that financial or other resources committed to such activities will not be lost.

RESULTS OF OPERATIONS

During the year ended June 30, 1998, the Company sustained a loss of $23.5 million, or $1.33 per share.

The following table presents, for the periods indicated, certain components of the selected financial data of the Company as a percentage of total revenues:

	Year Ended June 30,		
	1998	1997	1996
Revenues:			
License	65.4 %	60.6 %	65.8 %
Service	34.6	39.4	34.2
Total revenues	100.0	100.0	100.0
Cost of revenues:			
License	3.8	3.7	17.2
Service	16.7	29.3	20.9
Total cost of revenues	20.5	33.0	38.1
Gross Profit	79.5	67.0	61.9
Operating expenses:			
Research and development	17.4	29.2	45.3
Sales and marketing	48.4	73.5	84.7
General and administrative	10.3	20.5	36.6
Amortization	5.2	7.4	32.4
Acquired research and development	56.5	-	275.7
Restructuring	-	2.9	34.3
Total operating expenses	137.8	133.5	509.0
Loss from operations	(58.3)	(66.5)	(447.1)
Other income (expense)	0.6	0.3	1.4
Interest income	3.9	8.6	14.8
Interest expense	(0.3)	(0.7)	(1.3)
Loss for the year before income taxes	(54.1)	(58.3)	(432.2)
Income tax recovery	2.2	-	-
Net loss for the year	(51.9) %	(58.3) %	(432.2) %

Fiscal 1998 Compared with Fiscal 1997

Revenues. Total revenues include license revenues and service revenues which consists of consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relation to total value under the contract after providing for any anticipated losses under the contract. Revenues from customer support agreements, which are generally for a term not exceeding one year, are recorded as deferred revenue when the agreement is executed and are recognized on a pro rata basis over the term of the agreement. Payments under customer support agreements are generally made in advance. Revenues from training and integration services are recognized in the period in which the services are performed.

Total revenues increased 100% from $22.6 million in the year ended June 30, 1997 to $45.3 million in the year ended June 30, 1998. Revenues from licenses increased 116% from $13.7 million in the year ended June 30, 1997 to $29.6 million in the year ended June 30, 1998. The Company's *Livelink* software accounted for 100% of revenues from licenses in fiscal 1998, compared with 90% in fiscal 1997. Service revenues increased 75.7% from $8.9 million in the year ended June 30, 1997 to $15.7 million in the year ended June 30, 1998. The increase in service revenues was primarily attributable to an increase in integration services provided to new license customers and the increase in support contracts provided to new and existing customers.

Cost of revenues. Cost of license revenues consists primarily of the costs of royalties payable to companies whose software is bundled in the Company's products, product media, duplication, manuals and packaging, as well as software amortization on purchased software.

Cost of license revenues increased from $848,000 in the year ended June 30, 1997 to $1.7 million in the year ended June 30, 1998, increasing from 3.7% to 3.8% of total revenue. The increase was primarily due to software amortization on purchased software.

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 13.9% from $6.6 million in the year ended June 30, 1997 to $7.6 million in the year ended June 30, 1998, primarily due to additional personnel required to support the expanded activities of the technical services department. Cost of service revenues as a percentage of total revenues decreased from 29.3% in the year ended June 30, 1997 to 16.7% in the year ended June 30, 1998. The Company believes that it must continue to enhance its customer service and support capabilities as its customer base expands.

Research and development costs. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses and facilities and equipment costs. The Company presently expenses all research and development costs as incurred. See Note 2 of Notes to Consolidated Financial Statements.

Research and development costs increased by 19.6% from $6.6 million in the year ended June 30, 1997 to $7.9 million in the year ended June 30, 1998 and decreased as a percentage of total revenues from 29.2% in the year ended June 30, 1997 to 17.5% in the year ended June 30, 1998. The Company believes that significant investments in research and development are required to remain competitive in the software business. As a consequence, the Company expects the absolute amount of its expenditures on research and development to continue to increase, mainly through the employment of additional development personnel. See "Forward-Looking Statements".

Sales and marketing expenses. Sales and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising, trade shows, cost of facilities and other expenses related to the sales and marketing of the Company's products and services. Sales and marketing expenses increased 31.7% from $16.6 million in the year ended June 30, 1997 to $21.9 million in the year ended June 30, 1998 but decreased as a percentage of total revenues from 73.5% in the year ended June 30, 1997 to 48.4% in the year ended June 30, 1998. The increase in absolute dollars was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing, public relations activities, marketing materials, advertising and trade shows to promote *Livelink*. Sales and marketing expenses can be expected to increase in absolute dollars consistent with the Company's increased sales and marketing efforts. See "Forward-Looking Statements".

General and administrative expenses. General and administrative expenses consist primarily of salaries of administrative personnel and related overhead and facilities expenses. General and administrative expenses remained constant at $4.6 million in the year ended June 30, 1997 and in the year ended June 30, 1998 and decreased as a percentage of total revenues from 20.5% in the year ended June 30, 1997 to 10.3% in the year ended June 30, 1998. The Company has maintained the size of its management and administrative staff during the year and believes that the level of general and administrative expenses in future periods will increase in absolute dollars as the Company will install new management information systems and processes. See "Forward-Looking Statements".

Amortization expenses. Amortization expense was $1.7 million in the year ended June 30, 1997 and increased to $2.4 million in the year ended June 30, 1998 as a result of increased capital expenditures during the year.

Acquired research and development. During fiscal 1998, the Company acquired certain assets and liabilities of Information Dimensions and OnTime. For both acquisitions, an aggregate of $24.1 million was charged to expense for acquired research and development at the dates of the respective acquisitions. The Company subsequently revised the software technology under development valuation for OnTime resulting in an additional writedown of $1.5 million and this amount has been included in acquired research and development.

Other income. During fiscal 1997, the Company sold its investment in Yahoo! Corporation for a net gain of $5.8 million. Also during the year, reserves were taken against the value of certain investments and other assets, including General Internet Inc. in the amount of $3.9 million and MacRAE's O.E.M. Mart Inc. in the amount of $815,000. This resulted in other income of $57,000. Other income of $280,000 for fiscal 1998 consisted principally of foreign exchange gains and gains on the sale of fixed assets.

Interest. Interest expense has been incurred by the Company under capital equipment leases. Interest expense was $148,000 in the year ended June 30, 1997 compared to $125,000 in the year ended June 30, 1998. The Company earned interest income in the amount of $1.9 million during the year ended June 30, 1997 which decreased to $1.7 million for the year ended June 30, 1998 as a result of lower interest rates and lower average cash balances. See "Liquidity and Capital Resources".

Income taxes. A deferred tax asset of $16.4 million and $27.9 million existed as of June 30, 1997 and June 30, 1998 respectively. A valuation allowance is recorded against a deferred tax asset if it is more likely than not that the asset will not be realized. In accordance with US GAAP, a valuation allowance continues to be recorded against a significant portion of the deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset under certain conditions.

Fiscal 1997 Compared with Fiscal 1996

Revenues. Total revenues increased 127% from $10.0 million in the year ended June 30, 1996 to $22.6 million in the year ended June 30, 1997. Revenues from licenses increased 109% from $6.6 million in the year ended June 30, 1996 to $13.7 million in the year ended June 30, 1997. The Company's information search and retrieval software and workflow, document management and collaborative computing software accounted for 90% of revenues from licenses in fiscal 1997, compared with 69% in fiscal 1996. Service revenues increased 160% from $3.4 million in the year ended June 30, 1996 to $8.9 million in the year ended June 30, 1997. The increase in service revenues was primarily attributable to an increase in integration services provided to new license customers and the increase in support contracts provided to new and existing customers.

Cost of revenues. Cost of license revenues decreased from $1.7 million in the year ended June 30, 1996 to $848,000 in the year ended June 30, 1997, decreasing from 17.2% to 3.7% of total revenue. This was primarily due to decreased royalties payable as a result of the discontinuation of the Company's *Internet Anywhere* product at the end of fiscal 1996, as well as decreased packaging, and production costs after discontinuing *Internet Anywhere*.

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 217% from $2.1 million in the year ended June 30, 1996 to $6.6 million in the year ended June 30, 1997, primarily due to additional personnel required to support the expanded activities of the technical services department. Cost of service revenues as a percentage of total revenues increased from 20.9% in the year ended June 30, 1996 to 29.3% in the year ended June 30, 1997. The Company believes that it must continue to enhance its customer service and support capabilities as its customer base expands.

Research and development expenses. The following table sets forth gross and net research and development expenditures and investment tax credits for the periods indicated:

	Year Ended June 30,	
	1997	1996
	(in thousands)	
Gross research and development expenditures	$6,612	$5,201
Investment tax credits	-	(670)
Net research and development expenditures	$6,612	$4,531
Gross research and development expenditures as a percentage of total revenues	29.2%	52.0%
Net research and development expenditures as a percentage of total revenues	29.2%	45.3%

Net research and development costs increased by 45.9% from $4.5 million in the year ended June 30, 1996 to $6.6 million in the year ended June 30, 1997 and decreased as a percentage of total revenues from 45.3% in the year ended June 30, 1996 to 29.2% in the year ended June 30, 1997. The absolute dollar amount spent on research and development increased and reflected an increase in the number of personnel through hiring in support of the Company's research and development projects.

As a Canadian Controlled Private Corporation ("CCPC"), the Company qualified for certain investment tax credits under the Income Tax Act (Canada) on eligible research and development expenditures. Prior to the Company's initial public offering in January 1996, refundable investment tax credits, which result in cash payments to the Company, have been recorded at a rate of 35% of eligible current research and development expenditures, and at a rate of 20% of eligible capital research and development expenditures, with an additional 10% recorded at the provincial level effective

January 1, 1995. Prior to the Company's initial public offering, the Company was entitled to an investment tax credit at these rates for the first Cdn $2.0 million of eligible current research and development expenditures and a further investment tax credit at the rate of 20% of eligible research and development expenditures in excess of Cdn $2.0 million. Investment tax credits on current expenditures earned at the 35% rate are fully refundable to CCPCs. Investment tax credits earned by a CCPC on capital expenditures and investment tax credits earned at the 20% rate are refundable at a rate of 40% of the amount of the credit. The Company now earns investment tax credits at a rate of 20% of eligible current and capital research and development expenditures made after December 31, 1995. While a portion of investment tax credits earned when the Company was a CCPC were refundable, investment tax credits earned subsequent to December 31, 1995 may only be used to offset income taxes otherwise payable.

Sales and marketing expenses. Sales and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising, trade shows, cost of facilities and other expenses related to the sales and marketing of the Company's products and services. Sales and marketing expenses increased 96.5% from $8.5 million in the year ended June 30, 1996 to $16.6 million in the year ended June 30, 1997 but decreased as a percentage of total revenues from 84.7% in the year ended June 30, 1996 to 73.5% in the year ended June 30, 1997. The increase in absolute dollars was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing, public relations activities, marketing materials, advertising and trade shows to promote *Livelink*.

General and administrative expenses. General and administrative expenses increased 27.1% from $3.7 million in the year ended June 30, 1996 to $4.6 million in the year ended June 30, 1997 and decreased as a percentage of total revenues from 36.6% in the year ended June 30, 1996 to 20.5% in the year ended June 30, 1997. The increase in absolute dollars was attributable to an increase in salaries and other costs as the Company has grown in size and scope.

Amortization expenses. Amortization expense was $1.1 million in the year ended June 30, 1996 and increased to $1.7 million in the year ended June 30, 1997 as a result of increased capital expenditures during the year. Amortization of purchased software and goodwill in 1996 amounted to $1.0 million and $1.1 million, respectively including a charge at June 30, 1996 reflecting write-off of goodwill in connection with the Company's restructuring and was included in amortization expense.

Acquired research and development. The $27.6 million charge in fiscal 1996 relates to the Acquisitions completed during the year which was expensed as of the dates of acquisition.

Other income. During fiscal 1997, the Company sold its investment in Yahoo! Corporation for a net gain of $5.8 million. Also during the year, reserves were taken against the value of certain investments and other assets, including General Internet Inc. in the amount of $3.9 million and MacRAE's O.E.M. Mart Inc. in the amount of $815,000. This resulted in Other income of $57,000. Other income for fiscal 1996 consisted principally of foreign exchange gains and gain on sale of fixed assets.

Interest. Interest expense has been incurred by the Company under capital equipment leases. Interest expense was $129,000 in the year ended June 30, 1996 compared to $148,000 in the year ended June 30, 1997. The Company recorded interest income in the amount of $1.5 million during the year ended June 30, 1996 which increased to $1.9 million for the year ended June 30, 1997.

Income taxes. A deferred tax asset of $9.2 million and $16.4 million existed as of June 30, 1996 and June 30, 1997 respectively. A valuation allowance is recorded against a deferred tax asset if it is more likely than not that the asset will not be realized. In accordance with US GAAP, a 100% valuation allowance was recorded by the Company because of the lack of profitability in the past, the significant risk that taxable income would not be generated in the future and the nontransferable nature of the deferred tax asset under certain conditions.

QUARTERLY RESULTS

The Company has experienced significant fluctuations in quarterly results that have been caused by many factors, including changes in demand for the Company's products, the introduction or enhancement of products by the Company and its competitors, market acceptance of those products or enhancements, delays in the introduction of products or enhancements by the Company or its competitors, delays involved in installing products with customers, the mix of distribution channels through which products are sold, the mix of products and services sold, the mix of international and North American revenues, the integration of the Acquired Businesses into the Company's operations and general economic conditions. The results of operations of these businesses have also fluctuated from period to period due to factors similar to those that have affected the Company. As a result, the Company believes that period-to-period comparisons of its results of operations, either on an actual or pro forma basis, are not necessarily meaningful and should not be relied upon as any indication of future performance. In addition, like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last quarter of each fiscal year and in the last weeks of each quarter. The Company's revenues for the quarter ended September 30 of each fiscal year generally have been lower than revenues for other quarters, however, it is uncertain whether this trend will continue in current or future periods. Due to all of the foregoing factors, the Company's operating results in a particular quarter may fail to meet market expectations.

LIQUIDITY AND CAPITAL RESOURCES

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements. The Company has financed its cash needs primarily through sales of securities.

At June 30, 1998, the Company had cash and cash equivalents of $40.4 million, current assets of $66.1 million and current liabilities of $27.5 million. The Company has credit facilities of $6.5 million, under which borrowings were insignificant as at June 30, 1998.

In January 1996, the Company completed an initial public offering with net proceeds of $61.4 million. The Company received net proceeds of approximately $20.6 million from sale of securities in private placements during fiscal 1996 before completion of the public offering. Cash used by operations during the year ended June 30, 1997 was $15.3 million. Sale of shares in Yahoo! Corporation generated $6.3 million. Purchase of other investments and additions to other assets were $1.4 million and $6.0 million respectively. Acquisitions of furniture and equipment was $2.6 million. Net cash used for the payment of capital lease obligations was $828,000. During fiscal 1997, the Company advanced approximately $4.0 million to General Internet Inc. ("General Internet"), a US based Internet service development company and converted these advances to a promissory note. During 1998, the Company converted the note to 433,333 shares of Series A Convertible Preferred Stock, 1,114,327 shares of Series B Convertible Preferred Stock and a Special Warrants to purchase 67,708 shares of General Internet common stock. In fiscal 1997, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc. ("MacRAE's) and loaned $1.1 million to MacRAE's in the form of a subordinated debenture.

On March 25, 1998, the Company issued 1,750,000 Special Warrants at a price of $20.85 per Special Warrant for net proceeds to the Company of $34.8 million. All of the Special Warrants were converted into 1,750,000 Common Shares on July 10, 1998 without payment of additional consideration. Cash used by operations during the year ended June 30, 1998 was $8.1 million. Acquisitions of furniture and equipment was $3.7 million. The purchase of OnTime and Information Dimensions resulted in a cash outflow of $5.5 million and $7.8 million respectively. The purchase of other investments resulted in a cash outflow of $2.4 million. Net cash used for the payment of capital lease obligations was $597,000.

The Company had liabilities with respect to capital leases of $344,000 at June 30, 1998 and operating lease obligations during fiscal 1998 of $2.2 million. The Company anticipates additional capital expenditures for equipment as the number of employees increases and to meet new technology needs.

Since June 30, 1995, the Company has completed the Acquisitions, hired additional employees, increased its sales, marketing and promotional activities, increased occupancy costs and otherwise increased the level of its business activity. This has resulted, and will continue to result, in cash requirements that significantly exceed those of previous years. The Company believes that existing cash and revenue from operations, will be sufficient to satisfy the Company's operational cash requirements until June 30, 1999. See "Forward-Looking Statements". However, the Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures for acquisitions, investments, joint ventures and other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company ultimately would require additional financing. There can be no assurance that such financing would be available if required.

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES AND INFLATION

The Company's earnings are affected by fluctuations in the value of the US dollar, as compared to foreign currencies, as a result of transactions in foreign markets. Approximately 32% of the Company's revenues in 1998 and 39% in 1997 has been earned in currencies other than the US dollar. A portion of the Company's operating expense, however, has been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the United States dollar and other foreign currencies could materially affect the Company's results of operations. To date, the Company has not engaged in exchange rate hedging activities nor does the Company purchase or hold any derivative financial instruments for speculative purposes. To the extent that the Company implements hedging activities in the future with respect to foreign currency exchange transactions, there can be no assurance that the Company will be successful in such hedging activities.

While the Company believes that inflation has not had a material effect on its results of operations, there can be no assurance that inflation will not have a material effect on the Company's results of operations in the future.

YEAR 2000 COMPLIANCE

The approach of the year 2000 presents potential issues to all organizations who use computers in the conduct of their business or depend on business partners who use computers. To the extent computer use is date-sensitive, hardware or software that recognizes the year by the last two digits may erroneously recognize "00" as 1900 rather than 2000, which could result in errors or system failures.

The Company initiated its year 2000 compliance efforts in 1998. The initial focus of the Company's compliance efforts was on *Livelink*, however the review has now been expanded to include all of the Company's products and systems (including past products). The Company has retained outside consultants to assist it in its compliance review. The review and a determination of all compliance costs is expected to be completed by the end of calendar 1998. The Company's contingency plan will be formalized at the conclusion of this review.

Livelink obtains date information, such as creation dates and modification dates, directly from the computer's operating system. Thus, it is the Company's belief that the current version of *Livelink* is year 2000 compliant provided that third party software is not embedded therein and that the underlying operating systems are fully compliant. However, the Company has not yet completed the necessary testing in order to verify this compliance. Therefore, the primary risk for the Company's customer lies with their own computer operating systems. While operating systems companies have stated that their products will continue to operate properly into the twenty-first century, the Company has not conducted any tests with the operating systems companies to verify this.

There is also the possibility that in the coming year corporations, in dealing with their own Year 2000 issues, will defer some software purchases, except for the most urgent and those relevant to solving their own Year 2000 concerns. To the extent that this occurs, it could materially adversely affect the Company's results of operations.

In addition to any Year 2000 issues identified within the Company, it is not presently clear that all parts of the country's infrastructure, including such things as the national banking systems, electrical power, communications, and governmental activities, will be fully functioning as the Year 2000 approaches. To the extent failure occurs in such activities, which are outside the Company's control, it could affect the Company's ability to service its customers with the same degree of effectiveness with which they are served presently. The Company is identifying elements of the infrastructure that are of greater significance to its operations, obtaining information on an ongoing basis as to their expected Year 2000 readiness, and determining alternative solutions if required.

Financial Statements and Supplementary Data

Management's Report

Management is responsible for all the information and representations contained in the consolidated financial statements. Management believes that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included. In preparing the consolidated financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being accounted for.

In meeting its responsibility for the reliability of the consolidated financial statements, management depends on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization, and are recorded properly to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles. In designing control procedures, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors pursues its oversight role for these consolidated financial statements through the Audit Committee, which is comprised solely of Directors who are not officers or employees of the Company. The Audit Committee meets with management periodically to review their work and to monitor the discharge of each of their responsibilities. The Audit Committee also meets periodically with PricewaterhouseCoopers, the independent auditors, who have free access to the Audit Committee of the Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

PricewaterhouseCoopers is engaged to express an opinion on our consolidated financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the consolidated financial statements are not materially misleading and do not contain material errors.

P Thomas Jenkins
Chief Executive Officer

Thomas J Hearne
Chief Financial Officer

August 12, 1998

Auditors' Report

TO THE DIRECTORS AND SHAREHOLDERS OF OPEN TEXT CORPORATION

We have audited the consolidated balance sheets of Open Text Corporation as at June 30, 1998 and 1997 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1998, 1997 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these 1998 and 1997 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 1998 and 1997 and the results of its operations and cash flows for the years ended June 30, 1998, 1997 and 1996 in accordance with accounting principles generally accepted in the United States.

PricewaterhouseCoopers
Chartered Accountants

Kitchener, Canada
August 12, 1998

OPEN TEXT CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands of US Dollars, except share data)

	June 30, 1998	June 30, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$40,390	$31,762
Accounts receivable trade, net of allowance for doubtful accounts of $1,635 as at June 30, 1998 and $350 as at June 30, 1997	22,924	8,623
Prepaid expenses	2,834	2,407
Total current assets	66,148	42,792
Furniture and equipment (Note 3)	8,710	5,054
Other investments, at cost (approximates market value)	3,977	1,591
Other assets	4,553	2,908
	$83,388	$52,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade and accrued liabilities (Note 5)	$17,052	$7,092
Deferred revenues	10,112	1,857
Obligations under capital leases (Note 6)	344	941
Total current liabilities	27,508	9,890
Commitments (Note 9)		
Shareholders' equity:		
Share capital (Note 7)		
18,087,069 and 17,204,120 Common Shares issued and outstanding at June 30, 1998 and June 30, 1997 respectively	105,108	101,103
1,750,000 Special Warrants issued and outstanding	34,800	-
Other capital	155	2,076
Employee share purchase loans	-	(383)
Accumulated deficit	(83,239)	(59,764)
Cumulative translation adjustments	(944)	(577)
Total shareholders' equity	55,880	42,455
	$83,388	$52,345

See accompanying notes to consolidated financial statements

OPEN TEXT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of US Dollars, except share and per share data)

	Year Ended June 30, 1998	1997	1996
Revenues:			
License	$ 29,644	$ 13,736	$ 6,573
Service	15,656	8,912	3,422
Total revenues	45,300	22,648	9,995
Cost of revenues:			
License	1,711	848	1,719
Service	7,554	6,631	2,093
Total cost of revenues	9,265	7,479	3,812
	36,035	15,169	6,183
Operating expenses:			
Research and development	7,906	6,612	4,531
Sales and marketing	21,906	16,638	8,466
General and administrative	4,645	4,648	3,658
Amortization	2,374	1,689	3,238
Acquired research and development	25,579	-	27,555
Restructuring reserve	-	650	3,428
Total operating expenses	62,410	30,237	50,876
Loss from operations	(26,375)	(15,068)	(44,693)
Other income (Note 10)	280	57	145
Interest income	1,745	1,944	1,478
Interest expense	(125)	(148)	(129)
Loss before income taxes	(24,475)	(13,215)	(43,199)
Income tax recovery	1,000	-	-
Net loss for the year	$ (23,475)	$ (13,215)	$ (43,199)
Net loss per share, basic and diluted	$ (1.33)	$ (0.78)	$ (3.59)
Weighted average number of Common Shares outstanding, basic and diluted	17,679,987	16,865,644	12,042,006

See accompanying notes to consolidated financial statements

OPEN TEXT CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Shares		Special Warrants	
	Shares	Amount	Shares	Amount
Balance as of June 30, 1995	6,124	$ 2,645	-	$ -
Issuance of Special Warrants	-	-	2,403	8,673
Exercise of dissenters' rights	(391)	(131)	-	-
Issuance of Common Shares				
On conversion of special warrants	2,403	8,673	(2,403)	(8,673)
In connection with acquisitions	888	8,940	-	-
Under employee stock option plans	122	51	-	-
Under employee stock option plans in exchange				-
for employee share purchase loans	1,675	240	-	-
In connection with private placements	1,182	11,956	-	-
From public offering, net of issuance				-
cost of $2,755	4,600	61,415	-	-
On reversal of dissenters' rights	391	131	-	-
Common Shares set aside in connection with				
acquisitions	-	-	-	-
Repurchase of Common Shares	(758)	(357)	-	-
Loss for the year	-	-	-	-
Balance as of June 30, 1996	16,236	93,563	-	-
Issuance of Common Shares				
Conversion of shares set aside including				
employee stock options	672	7,040	-	-
Under employee stock option plans	296	500	-	-
Foreign currency translation adjustment	-	-	-	-
Loss for the year	-	-	-	-
Balance as of June 30, 1997	17,204	101,103	-	-
Issuance of Common Shares				
Conversion of shares set aside	4	54	-	-
Under employee stock option plans	879	3,951	-	-
Issuance of Special Warrants	-	-	1,750	34,800
Reduction in original investments	-	-	-	-
Repayment of employee share purchase loans	-	-	-	-
Foreign currency translation adjustment	-	-	-	-
Net loss for the year	-	-	-	-
Balance as of June 30, 1998	18,087	$ 105,108	1,750	$ 34,800

See accompanying notes to consolidated financial statements

Other Capital Number	Other Capital Amount	Employee Share Purchase Loans	Accumulated Deficit	Cumulative Translation Adjustments	Total
-	$ -	$ -	$ (1,901)	$ (340)	$ 404
		-	-	-	-
-	-	(1,389)	-	(1,520)	
					-
-	-	-	-	-	8,673
-	-	-	-	-	8,940
-	-	-	-	-	51
					-
-	-	(240)	-	-	-
-	-	-	-	-	11,956
					-
-	-	-	-	-	61,415
-	-	-	1,389	-	1,520
					-
883	9,116	-	-	-	9,116
-	-	-	(1,449)	-	(1,806)
-	-	-	(43,199)	-	(43,199)
883	9,116	(240)	(46,549)	(340)	55,550
(672)	(7,040)	(143)	-	-	(143)
-	-	-	-	-	500
-	-	-	-	(237)	(237)
-	-	-	(13,215)	-	(13,215)
211	2,076	(383)	(59,764)	(577)	42,455
(4)	(54)	-	-	-	-
-	-	-	-	-	3,951
-	-	-	-	-	34,800
(191)	(1,867)	-	-	-	(1,867)
-	-	383	-	-	383
-	-	-	-	(367)	(367)
-	-	-	(23,475)	-	(23,475)
16	$ 155	$ -	$ (83,239)	$ (944)	$ 55,880

OPEN TEXT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended June 30,		
	1998	1997	1996
Cash flows from operating activities:			
Net loss for the year	$ (23,475)	$ (13,215)	$ (43,199)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of furniture and equipment	2,374	-	3,238
Amortization of acquired research and development	25,579	1,689	27,555
Write-down of furniture and equipment	-	-	856
Other	(76)	-	-
Changes in operating assets and liabilities (net of assets acquired in the period):			
Accounts receivable	(7,864)	(3,207)	(4,168)
Prepaid expenses and other current assets	415	(204)	(584)
Provision for restructuring	-	(2,339)	-
Accounts payable - trade and accrued liabilites	(5,095)	2,049	3,949
Gain on sale of other investments	-	(45)	-
Net cash used in operating activities	(8,142)	(15,272)	(12,353)
Cash flows from investing activities:			
Acquisitions of furniture and equipment	(3,733)	(2,623)	(2,356)
Purchase of other investments	(2,386)	(1,389)	-
Purchase of OnTime group net of cash acquired	(5,485)	-	-
Purchase of Information Dimensions group net of cash acquired	(7,829)	-	-
Purchase of Odesta	-	-	(5,305)
Purchase of InfoDesign	-	-	(1,081)
Purchase of other businesses	-	-	(2,490)
Proceeds of sale of other investments	-	6,345	(2,227)
Additions to other assets	(467)	(5,967)	(753)
Net cash used in investment activities	(19,900)	(3,634)	(14,212)
Cash flow from financing activities:			
Payments of obligations under capital leases, including current portion	(597)	(828)	(944)
Proceeds from issuance of Special Warrants	34,800	-	8,673
Proceeds from issuance of Common Shares	2,084	500	73,661
Employee share purchase loans	383	(143)	(240)
Repurchase of Common Shares	-	-	(1,806)
Increase (decrease) in bank indebtedness	-	-	(1,640)
Net cash provided by (used in) financing activities	36,670	(471)	77,704
Increase/(decrease) in cash and cash equivalents during the year	8,628	(19,377)	51,139
Cash and cash equivalents at beginning of the year	31,762	51,139	-
Cash and cash equivalents at end of the year	$ 40,390	$ 31,762	$ 51,139

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—NATURE OF OPERATIONS

The Company develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's shares trade publicly on the NASDAQ Stock Market - National market, under the symbol OTEXF and on the Toronto Stock Exchange, under the symbol OTC.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements are expressed in US dollars and are prepared in accordance with generally accepted accounting principles in the United States.

Basis of consolidation

The consolidated financial statements include the accounts of Open Text Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Accounting estimates

The preparation of financial statements in conformity with US 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less at the date of acquisition are classified as cash equivalents.

Furniture and equipment

Furniture and equipment are stated at cost and are depreciated on a declining balance basis over the estimated useful lives of the related assets, generally two to five years. Leased assets are amortized on a declining balance basis over the lesser of the estimated useful life or the lease term. Gains and losses upon asset disposal are taken into income in the year of disposition.

Revenue recognition

a) *License revenues*

License revenues consist primarily of revenues from software license agreements. Revenues from the sale of software products are recognized upon delivery of the product if remaining vendor obligations are insignificant and collection of the resulting receivable is probable.

b) *Service revenues*

Service revenues consist of revenues from consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relationship to total revenues under the contract after providing for any anticipated losses under the contract. Software maintenance revenues are deferred and recognized ratably over the life of the service contract. Revenues from training and integration services are recognized in the period in which the services are performed.

Research and development costs

Costs related to research, design and development of products are charged to research and development expense as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. To date, completing a working model of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any software development costs since such costs have not been significant.

Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities, measured at tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Concentration of credit risk

The Company maintains the majority of its cash and cash equivalents in US dollar denominated Canadian federal government securities or short-term, interest-bearing, investment-grade securities and demand accounts of a major Canadian chartered bank or Commercial paper.

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains allowances for potential losses, and such losses have been within management's expectations. No single customer accounted for more than 10% of the accounts receivable balance at June 30, 1998. One customer accounted for 14% of the accounts receivable balance as at June 30, 1997.

Fair value of financial instruments

Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, trade and accrued liabilities approximate fair value due to their short maturities. Based upon borrowing rates currently available to the Company for loans with similar terms, the carrying value of capital lease obligations approximate fair value.

Foreign currency translation

Assets and liabilities of certain foreign subsidiaries, whose functional currency is the local currency, are translated from their respective functional currencies to US dollars at year-end exchange rates. Income and expense items are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of such foreign subsidiaries, is reflected as a separate component of shareholders' equity.

Employee stock option plans

The compensation cost associated with the Company's employee stock-based compensation plans are determined using the intrinsic value method.

Computation of net loss per share

Net loss per share is computed using the weighted average number of common shares outstanding.

Recent accounting pronouncements

In June of 1997, the Financial Accounting Standards Board issued SFAS No. 130 "Reporting Comprehensive Income." SFAS No. 130 is effective for fiscal years beginning after December 15, 1997 and will require the Company to report all components of comprehensive income as well as a total amount of comprehensive income. The Company will adopt the provisions of SFAS No. 130 as they become effective, on a comparative basis.

In June of 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 is effective for fiscal years beginning after December 15, 1997 and requires the Company to disclose information based on operating segments. The Company will adopt SFAS No. 131 as it becomes effective and the provisions of this statement would not significantly change currently reported segment information.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 132, "Employer Disclosure about Pensions and other Post Retirement Benefits" and SFAS No. 133, "Accounting for Derivatives and Other Hedging Activities." As the Company currently does not have any post retirement benefits and does not engage in any hedging activities, the provisions of these Statements would not have a significant impact.

NOTE 3—FURNITURE AND EQUIPMENT

	June 30, 1998		
	Cost	Accumulated Amortization	Net
		(in thousands)	
Furniture and fixtures	$ 3,025	$ 1,182	$ 1,843
Office equipment	294	196	$98
Computer hardware and software	14,122	8,233	$5,889
Assets under capital leases	1,977	1,442	$535
Leasehold improvements	539	194	$345
	$ 19,957	$ 11,247	$ 8,710

	June 30, 1997		
	Cost	Accumulated Amortization	Net
		(in thousands)	
Furniture and fixtures	$ 1,481	$ 341	$ 1,140
Office equipment	138	63	75
Computer hardware and software	4,619	1,875	2,744
Assets under capital leases	1,843	953	890
Leasehold improvements	279	74	205
	$ 8,360	$ 3,306	$ 5,054

NOTE 4—BANK INDEBTEDNESS

The Company and its subsidiaries have credit facilities totaling $6.5 million (1997 - $7.0 million) that are secured by a general security agreement, at prime rate of interest (6.5% as of June 30, 1998). During 1998, 1997 and 1996, borrowings and interest cost on bank indebtedness were insignificant.

NOTE 5—ACCOUNTS PAYABLE—TRADE AND ACCRUED LIABILITIES

Accounts payable—trade and accrued liabilities are as follows:

	June 30,	
	1998	1997
	(in thousands)	
Accounts payable - trade	$2,734	$1,234
Accrued trade liabilities	3,061	2,373
Amounts payable for acquisitions	7,196	1,037
Accrued salaries and commissions	4,173	1,237
Other liabilities	(112)	1,211
	$17,052	$7,092

NOTE 6—OBLIGATIONS UNDER CAPITAL LEASES

Obligations under capital leases are as follows:

	June 30, 1998 (in thousands)
1998	$ 294
1999	79
2000	7
	380
Less: Imputed interest	36
	$ 344

Interest paid on capital leases amounted to $63,000 in 1998, $80,000 in 1997 and $91,000 in 1996.

NOTE 7—SHARE CAPITAL

The authorized share capital of the Company is an unlimited number of Common Shares.

On March 25, 1998, the Company issued 1,750,000 Special Warrants convertible into Common Shares at a price of $20.85 per Special Warrant for net proceeds to the Company of $34.8 million. Each Special Warrant entitled the holder, upon exercise of the conversion rights contained therein, to acquire one Common Share, without any additional payment, at any time after May 5, 1998 and up to and including 5:00 pm (EST) on the date (the "Expiry Date") which is the earlier of (a) the fifth business day after the date (the "Qualification Date") as of which the last of the Ontario and Quebec Securities Commissions shall have issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares issuable on the conversion of the Special Warrants; and March 25, 1999. A receipt for a (final) prospectus was filed on July 2, 1998 and all the Special Warrants were converted on July 10, 1998 without additional consideration.

NOTE 8—OPTION PLANS

1995 "Restated" Flexible Stock Incentive Plan

In June 1995, the Company adopted the 1995 Flexible Stock Incentive Plan (the "Incentive Plan") for employees, officers, directors and consultants. The plan allowed the grant of options to purchase an aggregate of 782,500 Common Shares at an exercise price of $0.15 per share.

Options granted under the Incentive Plan vest over a four or five year period. Under the Incentive Plan, options are exercisable for a period of up to seven years from the grant date. Vested options terminate immediately upon an optionee's termination "for cause" and 90 days after termination for any other reason. Unvested options terminate immediately upon the termination of an optionee's employment or service to the Company.

During October 1995, additional options to purchase 250,000, 37,000 and 18,500 Common Shares were granted under the Incentive Plan at exercise prices of $3.87, $9.93 and $10.00, respectively.

The Company granted additional options arising from acquisitions under the Incentive Plan. A total of 25,578 options to purchase Common Shares were granted to shareholders of Intunix at an exercise price of $5.62 and vested as to 40% of the Common Shares immediately and the remainder will vest over four years at a rate of 15% per year. A total of 32,092 options to purchase Common Shares were granted to the shareholders of Network Software Group Inc. at an exercise price of $10.75 and will vest over a four year period commencing June 21, 1996. A total of 21,521 options to purchase Common Shares were granted to the shareholders of NIRV at an exercise price of $11.875 and vested immediately.

During fiscal 1997, additional new options to purchase 3,902,514 Common Shares were granted under the Incentive Plan at exercise prices between $4.25 and $10.25. The Board of Directors increased the number of Common Shares available under the Incentive Plan to accommodate these grants.

During fiscal 1998, additional new options to purchase 1,568,057 Common Shares were granted under the Incentive Plan at exercise prices between $9.25 and $21.00. The Board of Directors increased the number of Common Shares available under the Incentive Plan to accommodate these grants.

1995 Replacement Stock Option Plan

In October 1995, the Company adopted the 1995 Replacement Stock Option Plan (the "Replacement Plan"). The Replacement Plan provides for the granting of options to purchase an aggregate of 548,255 Common Shares to directors, officers, employees and consultants of Odesta who held options under Odesta's stock option plan. Options to purchase 548,255 Common Shares have been issued at an exercise price of $0.0005 per share and vest immediately.

Under the Replacement Plan, options are exercisable for a period of ten years from the grant date. Replacement Options terminate immediately upon the termination of an optionee's employment or service to the Company "for cause" and 90 days after termination for any other reason.

1995 Supplementary Stock Option Plan

In October 1995, the Company adopted the 1995 Supplementary Stock Option Plan. This Plan provides for the granting of options to purchase an aggregate of 357,500 Common Shares to eligible former directors, officers and employees of Odesta. Options to purchase 357,500 Common Shares have been issued at an exercise price of $14.00 per share. Options granted under the Supplementary Plan vest over a two-year period. Under the Supplementary Plan, options are exercisable for a period of ten years from the grant date. Vested options terminate 90 days after termination of an optionee's employment or service to the Company for any reason.

1995 Directors Stock Option Plan

The Directors Stock Option Plan (the "Directors Plan") provides for the granting of options to purchase an aggregate of 50,000 Common Shares to eligible non-employee directors of the Company. This was subsequently increased by 500,000. In accordance with the Directors Plan, the Plan Administrator determines the non-employee directors for the Company to whom options are granted, the number of Common Shares subject to each option, the exercise price and vesting schedule of each option. At June 30, 1998, 420,000 options had been granted to date under the Directors Plan of which 324,000 options in total are outstanding and eligible to purchase Common Shares as follows: 104,000 options at an exercise price of $6.63 vesting over four years; 12,000 options at an exercise price of $9.97 vesting over four years; 76,000 options at an exercise price of $11.18 vesting over four years; 44,000 options at an exercise price of $12.90 vesting over four years and 88,000 options at an exercise price of $14.81 vesting over four years.

Option Exchange Program

On September 10, 1996, the Board of Directors authorized an option exchange program (the "Program") whereby employees who have been granted options to acquire Common Shares of the Company under the 1995 Flexible Stock Incentive Plan (the "Flexible Plan") and the 1995 Supplementary Stock Option Plan (the "Supplementary Plan") were permitted to exchange those options on a one-for-one basis, for an option to acquire Common Shares of the Company with an exercise price of $4.25 (the "Exchange Options"). This was subsequently approved by the shareholders. The Exchange Options vest and become exercisable, as to 10% of the Common Shares subject to option, the later of six months after the date of grant or the date the original option was scheduled to first vest (the "initial vesting date"), as to the next 10% of the Common Shares subject to option, six months after the initial vesting date, and as to the remainder of the Common Shares subject to option, 5% at the end of each quarter following one year after the initial vesting date.

A total of 510,452 options to acquire Common Shares of the Company from the Flexible and Supplementary plans were eligible for exchange under the Program with an average exercise price of $12.89. A total of 140,830 options under the Flexible Plan with a weighted average exercise price of $10.90 were exchanged for 140,830 Exchange Options and 335,000 options under the Supplementary Plan with an exercise price of $14.00 were exchanged for 335,000 Exchange Options.

1998 Stock Option Plan

On June 23, 1998, the Board of Directors adopted the Company's 1998 Stock Option Plan (the "New Option Plan"). Under the New Option Plan, non-transferable options to purchase Common Shares may be granted to employees and directors of, and persons providing services to, the Company and its subsidiaries based on eligibility criteria set forth in the New Option Plan. The exercise price of any option to be granted under the New Option Plan is to be determined by the Board of Directors of the Company but shall not be less than the closing price of the Common Shares on the day immediately preceding the date of grant on the quotation system or stock exchange which had the greatest volume of trading of Common Shares. The maximum number of Common Shares issuable pursuant to the New Option Plan is 294,082 and the aggregate number of Common Shares reserved for issuance to any one person pursuant to the options granted under the New Option Plan or any other share compensation arrangement shall not exceed five percent (5%) of the outstanding Common Shares. The number of Common Shares reserved for issuance pursuant to all options granted to insiders under the New Option Plan and other share compensation arrangements shall not exceed fifteen percent (15%) of the outstanding Common Shares. In addition, the issuance to any one insider and such insider's associates, within a one-year period, of Common Shares issued pursuant to all share compensation arrangements may not exceed five percent (5%) of the outstanding Common Shares and the issuance to all insiders, within a one-year period, of Common Shares issued pursuant to all share compensation arrangements may not exceed ten percent (10%) of the outstanding Common Shares.

The New Option Plan provides that the Company may make loans, the repayment of which shall be secured by the Common Shares purchased with the proceeds of such loans, or provide guarantees for loans to assist option holders to purchase Common Shares upon exercise of options granted pursuant to the New Option Plan or to assist option holders in payment of taxes exigible upon exercise of options granted pursuant to the New Option Plan. The terms of any option granted under the New Option Plan will not be permitted to exceed ten years.

Under the New Option Plan, the options for directors and senior officers will vest over a period specified by the Board of Directors at the time of grant. If an option holder resigns or ceases to be an employee or director of the Company or ceases to be engaged by the Company other than for cause or breach of duty, options held by such holder may be exercised prior to the 90th day following such occurrence. If an option holder ceases to be an employee or director of the Company or ceases to be engaged by the Company for cause or breach of duty, no options held by such holder may be exercised, and the option holder shall have no rights to any Common Shares in respect of such options following the date of notice of such cessation or termination, except in accordance with a written agreement with the Company.

The New Option Plan is administered by the Board of Directors, which has the authority, subject to the terms of the New Option Plan, to determine the persons to whom options may be granted, the exercise price and number of shares subject to each option, the time or times at which all or a portion of each option may be exercised and certain other provisions of each option, including vesting provisions.

During fiscal 1998, additional new options to purchase 25,000 Common Shares were granted under the New Option Plan at an exercise price of $15.375.

Summary of Outstanding Stock Options

As of June 30, 1998, options to purchase an aggregate of 5,066,090 Common Shares were outstanding under all of the Company's stock option plans out of an allowable pool of options totaling 5,335,172. Options to purchase 1,055,020 Common Shares were fully vested, and the remaining options vest over the next five years.

A summary of option activity since June 30, 1995 is set forth below:

	Options Outstanding	
	Number	Weighted Average Exercise Price
Options outstanding at June 30, 1995	2,299,833	$ 0.52
Granted during fiscal 1996	1,292,446	$ 5.55
Canceled and expired	-	$ -
Exercised	(1,797,523)	$ 0.24
Options outstanding at June 30, 1996	1,794,756	$ 1.10
Granted during fiscal 1997 (new)	3,902,514	$ 7.29
Exchanged under the Program	475,830	$ 4.25
Canceled and expired	(260,931)	$ 4.82
Exercised	(700,833)	$ 0.31
Exchanged	(475,830)	$ 12.89
Options outstanding at June 30, 1997	4,735,506	$ 5.65
Granted during fiscal 1998	1,813,057	$ 11.30
Cancelled and expired	(653,977)	$ 5.51
Exercised	(828,496)	$ 4.73
Options outstanding at June 30, 1998	5,066,090	$ 7.62

The following table summarizes information regarding stock options outstanding at June 30, 1998:

	Options Outstanding			Option Exercisable	
Range of Exercise Prices	Number Outstanding at June 30, 1998	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Weighted Number Outstanding at June 30, 1998	Average Exercise Price
$ 0.0005 - $ 0.15	203,875	6.74	$ 0.14	108,276	$ 0.13
$ 3.98 - $ 6.63	2,268,762	8.29	$ 5.50	596,811	$ 5.35
$ 6.75 - $ 8.38	922,570	8.86	$ 8.18	213,450	$ 8.17
$ 8.50 - $ 11.25	1,074,907	9.1	$ 9.70	128,632	$ 9.48
$ 11.62 - $ 21.00	595,976	9.5	$ 13.61	7,851	$ 15.62
$ 0.0005 - $ 21.00	5,066,090	8.64	$ 7.62	1,055,020	$ 5.96

The Company applies the intrinsic value method prescribed in APB No. 25, Accounting for Stock Issued to Employees in accounting for its stock-based compensation plans. Had compensation cost for the Company's stock-based compensation plans been determined using the fair value approach set forth in SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net loss for the year and net loss per share would have been increased to the pro forma amounts indicated below:

	June 30, 1998	1997	1996
Net loss for the year		(in thousands)	
As reported	$ (23,475)	$ (13,215)	$ (43,199)
Pro forma	$ (31,498)	$ (16,105)	$ (43,242)
Net loss per share, basic and diluted			
As reported	$ (1.33)	$ (0.78)	$ (3.59)
Pro forma	$ (1.78)	$ (0.96)	$ (3.59)

The fair value of each stock option grant on the data of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 1998	1997	1996
Volatility	63.6%	75.0%	30.0%
Risk-free interest rate	6.0%	6.0%	6.0%
Dividend yield	-	-	-
Expected lives (in years)	5.54	5.16	4.18
Weighted average fair value (in dollars)	13.87	7.53	11.13

EMPLOYEE STOCK PURCHASE PLAN

On March 5, 1998, the shareholders of the Company approved an Employee Stock Purchase Plan (“ESPP”) whereby employees of the Company can subscribe to purchase Common Shares through payroll withholdings from the treasury of the Company at 85% of the lessor of: (1) the fair market value of the Common Shares on the first business day of the purchase period and (2) the fair market value of the Common Shares on the purchase date. An aggregate 500,000 Common Shares have been reserved for purchase under the ESPP, subject to adjustments in the event or stock dividends, stock splits, combinations of shares, or other similar changes in capitalization of the Company.

NOTE 9—COMMITMENTS

Operating leases

The Company has entered into operating leases for premises with minimum annual rents as follows:

	June 30, 1998
	(in thousands)
1999	$ 3,100
2000	2,692
2001	2,240
2002	1,250
2003	1,250
Thereafter	7,243
	$ 17,775

Rent expense amounted to $2.2 million in 1998, $1.3 million in 1997 and $737,000 in 1996.

NOTE 10—OTHER INCOME

During 1997, the Company disposed of its investment in Yahoo! Corporation (“Yahoo”) for proceeds of $6.3 million and a net gain of $5.8 million.

Also during the year, reserves were taken against certain investments and other assets where Management as part of its regular review of the carrying value of its investments has determined there to be a permanent impairment in value. A summary of these items is as follows:

	June 30, 1998	1997	1996
		(in thousands)	
Gain on sale of Yahoo common shares	$ -	$ 5,845	$ -
Loss provision for General Internet Inc	-	(3,906)	-
Loss provision for valuation of other investments	-	(1,523)	-
Loss provision for other assets individually less than $200,000	-	(371)	-
Gain on sale of other investments	-	45	-
Balance of other income	280	12	145
Other income	$ 280	$ 57	$ 145

The remaining carrying cost of all investments approximate their market value of $4.0 million.

On October 17, 1996, pursuant to an agreement signed on the date between the Company and General Internet Inc. (“General Internet”), the Company converted its advances to General Internet to a promissory note, due no later than October 17, 1998, bearing a stated interest rate of 8.25% per annum, and secured by a security agreement subordinating the promissory note to a second position of not more than $2.5 million of debt or equity General Internet may otherwise secure and a right to a minority interest. The secured promissory note from General Internet totaled $3.9 million. The secured promissory note’s face value was calculated as $3.7 million representing a discount based on the difference between the rate of return associated with financing a start-up venture and the stated interest rate of 8.25% and was included in Other assets. The discount of $220,000 was charged to operations in the first quarter of fiscal 1997.

In March 1997, the Company determined that the value of the promissory note was permanently impaired requiring a further write down of $3.7 million which was charged to operations as of March 31, 1997. In April 1998, the Company converted the promissory note into Series A and B Convertible Preferred Shares and Special Warrants of General Internet.

NOTE 11—INCOME TAXES

The Company's consolidated income tax provision has been determined as follows:

	Year Ended June 30,		
	1998	1997	1996
		(in thousands)	
Loss before income taxes	$ (24,475)	$ (13,215)	$ (43,199)
Combined basic Federal and Provincial income taxes at 44.6% as of June 30, 1998, 1997 and 1996	$ 10,916	$ 5,854	$ 19,267
Decrease resulting from:			
Non-deductible amortization, including acquired research and development	-	-	(13,117)
Unrecorded benefit of temporary differences	(10,916)	(5,854)	(6,150)
Reduction in valuation allowance	1,000	-	-
Income tax recovery	$ 1,000	$ -	$ -

The Company's pre-tax loss for the year is allocated to tax jurisdictions as follows:

	Year Ended June 30,		
	1998	1997	1996
Canada	$ (6,919)	$ (10,773)	$ (40,033)
United States	(18,163)	(1,123)	(2,243)
Other	607	(1,319)	(923)
	$ (24,475)	$ (13,215)	$ (43,199)

The Company and its subsidiaries have approximately $63.4 million of losses and deductions available to reduce taxable income in future years, the benefit of which has only partially been reflected in the financial statements. Deductions of $32.3 million have no expiration date, and the balance of losses expire as follows:

Year Ended June 30	(in thousands)
1999	$ 563
2000	748
2001	2,420
2003	13,793
2004	3,624
2005	8,081
Thereafter	1,854
	$ 31,083

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and reporting purposes and amounts used for income tax purposes.

Significant components of the Company's deferred income tax balances consist of the following:

	June 30, 1998	June 30, 1997
	(in thousands)	
Losses available to offset future income taxes	13,641	9,933
Acquired research and development expenses deducted for accounting in excess of tax	6,202	3,704
Acquisition related expenses	3,158	-
Share issue costs	2,454	2,592
Other differences	2,434	143
Gross deferred tax assets	27,889	16,372
Less: Valuation allowance	(26,889)	(16,372)
Net deferred tax assets	$ 1,000	$ -

A valuation allowance continues to be recorded against a significant portion of the net deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax assets in certain situations.

NOTE 12—RELATED PARTY TRANSACTIONS

In fiscal 1997, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc., a Delaware Corporation ("MacRAE's"). The Company retained a 70% interest in MacRAE's. On that date, the Company also loaned $1.1 million to MacRAE's in the form of a subordinated debenture bearing an annual interest rate of 7.08% and repayable on December 31, 2007. The debenture was included in other investments and was subsequently written down to its realizable value (see Note 11, Other Income). MacRAE's purchased, from a company controlled by a director of the Company, for $365,000 the business to publish and sell the industrial directory, "MacRAE's Blue Book," and sell print advertising and information services in combination with sponsorships on its industry content web site, "Internet Mall." As of June 30, 1998 the Company has a plan to dispose of the investment and therefore carries its investment in MacRAE at cost. Operations of MacRAE's since incorporation through to June 30, 1998 are insignificant.

In 1996, the Company purchased 137,500 common shares of another investment from a shareholder of the Company for $550,000 which represented the carrying cost of the investment.

NOTE 13—FOREIGN REVENUE AND MAJOR CUSTOMERS

The Company licenses its software internationally and generates revenues from customers outside Canada, primarily the United States. The following table summarizes revenues from foreign customers for the periods indicated:

	Year Ended June 30,		
	1998	1997	1996
	(in thousands)		
United States	$27,758	$13,729	$4,427
Europe	11,514	3,454	1,110
Japan	1,111	495	1,159
Korea	-	-	921
Other foreign countries	457	21	498
	$40,840	$17,699	$8,115

In fiscal 1998, 1997 and 1996, no customers accounted for 10% or more of total revenues.

NOTE 14—SEGMENT INFORMATION

The Company's operations consists of a single line of business to develop, market, license and support software. This software enables users to find electronically stored information, work together in creative and collaborative processes, and distribute or make available to users across networks or the Internet the resulting work product or information.

The Company has sales and marketing operations located outside North America, primarily in Europe.

Financial data by geographic area:

	North America	Europe	Other	Total
	(in thousands)			
Revenues:				
June 30, 1998	$ 32,397	$ 11,514	$ 1,389	$ 45,300
June 30, 1997	18,678	2,472	1,498	22,648
June 30, 1996	6,260	1,150	2,585	9,995
Loss from operations:				
June 30, 1998	$ (27,397)	$ 1,022	$ -	$ (26,375)
June 30, 1997	(14,532)	(536)	-	(15,068)
June 30, 1996	(43,816)	(877)	-	(44,693)
Identifiable assets:				
June 30, 1998	$ 79,241	$ 4,147	$ -	$ 83,388
June 30, 1997	50,146	2,199	-	52,345
June 30, 1996	65,104	1,054	-	66,158

NOTE 15—SUPPLEMENTAL CASH DISCLOSURES

	June 30, 1998	1997	1996
	(in thousands)		
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 125	$ 148	$ 129
Supplemental Schedule of non cash investing and financing activities:			
Equipment purchased under capital leases	-	400	2,007
Conversion of special warrants to Common Shares	-	-	8,673
Conversion of shares set aside to Common Shares	54	7,040	-
Acquisitions (see Note 16)		-	-
Assets acquired, excluding cash	-	-	419
Purchased software	-	-	979
Goodwill and other intangible assets	-	-	1,890
Purchased research and development	-	-	27,555
Liabilities assumed in acquisitions	-	-	1,103

NOTE 16—ACQUISITIONS

Fiscal 1998

Information Dimensions

On June 3, 1998 the Company acquired certain of the assets and liabilities of Information Dimensions for approximately $8.1 million which consists of cash paid on closing of $7.6 million and an accrual of $500,000 for contingent consideration that the Company expects it will be obligated to pay to the vendor one year from the closing date based on the delivery of a special purpose balance sheet of the assets and liabilities assigned as at May 31, 1998. In addition, the Company accrued acquisition costs of $8.2 million. The operations of Information Dimensions have been included in the financial statements from the purchase date.

A key element of the acquisition is the Company's perception of the value of Information Dimensions document management technology. Although Information Dimensions is a leading document management technology, it is the Company's belief that substantial development will be required to complete the software technology to meet the Company's strategic goals.

The Company allocated the total purchase price and restructuring costs to the assets acquired as follows:

	(in thousands)
Tangible net liabilities	$ (2,876)
Current software products	2,250
Software technology under development	8,726
Acquisition related expenses	8,150
	$ 16,250

The software technology valuation was accomplished through the application of an income approach. Projected debt-free income, revenue net of provision for operating expenses and income taxes were discounted to a present value. Software technology was divided into two categories:

- current software products
- software technology under development

Current software products include products currently in the marketplace as of the acquisition date. The fair market value of the purchased current software products was determined to be $2.25 million. This amount was recorded as an asset and is being amortized on a straight-line basis over two years. Software technology under development included the value of products still in the development stage and not considered to have reached technological feasibility stage.

As a result of the valuation, the fair market value of the development costs was determined to be $16.9 million. In accordance with applicable accounting rules, this amount was expensed upon acquisition.

OnTime

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately $8.3 million, including acquisition costs of $1.6 million, in a transaction which has been accounted for under the purchase method. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of $6.2 million was paid at closing. Cash in the amount of $268,000 was paid prior to June 30, 1998 based on the final determination of OnTime's working capital.

A key element of the acquisition is the Company's perception of the value of OnTime's calendaring and scheduling technology. Although OnTime is a leading calendaring and scheduling technology, it is the Company's belief that substantial development will be required to complete the software technology to meet the Company's strategic goals.

The Company allocated the total purchase price to the assets acquired as follows:

	(in thousands)
Tangible net liabilities	$ (614)
Current software products	1,728
Software technology under development	5,586
Acquisition related expenses	1,600
	$ 8,300

The software technology valuation was accomplished through the application of an income approach. Projected debt-free income, revenue net of provision for operating expenses and income taxes were discounted to a present value. Software technology was divided into two categories:

- current software products
- software technology under development

Current software products include products currently in the marketplace as of the acquisition date. The fair market value of the purchased current software products was determined to be $1.728 million. This amount was recorded as an asset and is being amortized on a straight-line basis over two years. Software technology under development included the value of products still in the development stage and not considered to have reached technological feasibility stage.

As a result of the valuation, the fair market value of the development costs was determined to be $7.2 million. In accordance with applicable accounting rules, this amount was expensed upon acquisition.

The Company subsequently revised the software technology under development valuation for OnTime resulting in an additional writedown of $1.5 million and this amount has been included in acquired research and development.

The following pro forma consolidated information shows the results of operations for the years ended June 30, 1998 and 1997 as if the above acquisitions had occurred on July 1, 1996 and acquired research and development costs were expensed as of July 1, 1996. The proforma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisitions had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results expected to result from the integration of the acquired businesses.

	Year ended June 30, 1998	Year ended June 30, 1997
	(in thousands, except share and per share data) (unaudited)	
Pro forma total revenues	$ 69,494	$ 53,473
Pro forma loss for the year	$ (2,350)	$ (54,073)
Weighted average number of Common Shares outstanding	17,679,987	16,865,644
Pro forma loss per share	$ (0.13)	$ (3.21)

Of the accrual of acquisition costs for the OnTime and Information Dimensions acquisitions of $9.8 million, $7.98 million represents the costs to exit certain activities of the Acquired Companies as well as the cost of involuntary termination and relocation of certain employees of both of the Acquired Companies. The cost to exit certain activities includes costs to close locations of the Acquired Companies as well as the cost to discontinue development of certain products, which it expects to complete by the fourth quarter of fiscal 1999. The costs of involuntary termination represents the estimated costs to terminate employees whose positions have become redundant within the organization or who were involved in products the Company will discontinue. The Company has not yet determined the full extent of the restructuring nor has it communicated the termination and relocation plans to its employees. The Company expects its plan of termination and relocation to be formalized in the first quarter of fiscal 1999 and completed by the fourth quarter of fiscal 1999.

A summary of the acquisition costs that represent the costs to exit certain activities and involuntary termination and relocation costs is as follows:

	As of acquisition	Charges to reserve	June 30, 1998
		(dollars in thousands)	
Costs to exit certain activities	$ 2,486	$ (1,161)	$ 1,325
Involuntary termination and relocation	$ 5,494	$ (1,592)	$ 3,902
	$ 7,980	$ (2,753)	$ 5,227

Shares set aside

Pursuant to certain settlement agreements, the Company's obligation to issue shares in connection with its acquisitions of InfoDesign, NSG Software, NIRV, Softcore and Intunix have diminished. Income for the period reflects the reduction in shares set aside resulting from these settlement agreements.

NOTE 17—NET LOSS PER SHARE

The following table is a reconciliation of the earnings and share amounts used in the calculation of basic loss per share and diluted loss per share:

	Year Ended June 30,		
	1998	1997	1996
	(dollars in thousands)		
Loss available to common shareholders	$ (23,475)	$ (13,215)	$ (43,199)
Weighted average basic shares outstanding	17,679,987	16,865,644	12,042,006
Basic and diluted loss per share	$ (1.33)	$ (0.78)	$ (3.59)

The effect of options and warrants have been excluded from the calculation of basic and diluted net loss per share as their effect would have been anti-dilutive.

Subsequent to the year end, the holders of the Special Warrants exercised their right under the Special Warrants and converted their Special Warrants into common shares of the Company. On July 10, 1998, an additional 1,750,000 shares were issued in connection with these Special Warrants. Basic and diluted net loss per share would be $(1.24) had these Special Warrants been converted prior to the year end.

NOTE 18—RECLASSIFICATION

The accounts for the comparative periods have been reclassified to conform with the presentation adopted in the current year.

Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report constitute forward-looking statements. These forward-looking statements include, without limitation, statements in the CEO's letter under the heading "Moving Forward" and in the "Management's Discussion and Analysis" under the heading "Year 2000 Compliance", statements indentified by a cross reference to this section, and other statements concerning future plans, objective or anticipated results of operations or product and service initiatives of the Company and anticipated developments or conditions in the industry and the economy generally. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or developments in the Company's industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to: the Company's limited operating history and losses, increases in expenses, unproven acceptance of the Company's products and services, risks involving the management of growth, competition and new entrants in the market for the Company's products and services, product development risks and risks of technological change, liquidity and capital resources and the other risks and uncertainties described in filings with the United States Securities and Exchange Commission and the Ontario Securities Commission. The Company does not undertake to update forward-looking statements if conditions or management's estimates or opinions change.

OVERVIEW

Open Text develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's principal product line, *Livelink*, is a scaleable collaborative network application that integrates several modular engines including, but not limited to, search, collaboration, workflow, group calendaring and scheduling, and document management. The Company's search engine enables users to transparently search vast amounts of data stored in a wide variety of formats and in disparate locations, including World Wide Web sites. The Company's collaboration, workflow and document management engines enable users to establish and manage knowledge and document-oriented collaborative work processes that involve a diversity of workers, computing platforms and data. The Company's group calendaring and scheduling enables users to quickly schedule personal and group meetings, reserve conference rooms and add tasks to other users' lists of things to do. In addition, the Company's products enable organizations to flexibly manage the distribution and availability of information. The Company has focused its efforts on its intranet-related software and services to provide collaborative knowledge management solutions for use on intranets.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be considered in the light of the risks, expenses and difficulties frequently encountered by companies seeking to introduce new products into new and rapidly evolving markets. To address these risks and uncertainties, the Company must, among other things, successfully market its existing products and technologies and complete and introduce products and product enhancements under development in a timely manner, continue to upgrade and commercialize its technologies, and attract, retain and motivate highly qualified personnel and manage rapid growth.

There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in each of its last five fiscal years and as at June 30, 1998, had an accumulated deficit in shareholders' equity of $63.6 million.

During 1996, the Company completed the Acquisitions of seven businesses. The results of operations of the Acquired Businesses are included in the Company's results of operations from the dates of the Acquisitions. The Acquisitions have been accounted for under the purchase method of accounting and resulted in the allocation of an aggregate of approximately $30.5 million to intangible assets during the year ended June 30, 1996.

During 1998, the Company completed the acquisitions of OnTime and Information Dimensions. The results of operations of the Acquired Businesses are included in the Company's results of operations from the dates of the Acquisitions. The Acquisitions have been accounted for under the purchase method of accounting and resulted in the allocation of an aggregate of approximately $28.0 million to intangible assets during the year ended June 30, 1998. See Note 16 of Notes to Consolidated Financial Statements for additional information concerning the Acquisitions.

The Company's strategy in acquiring certain of the Acquired Businesses was principally to acquire technology which the Company believed could be adapted and integrated with the Company's existing products and technologies to develop information management software solutions applicable to intranets and the Internet. See Note 16 of Notes to Consolidated Financial Statements. In order to complete the development of these products, the Company has pursued several significant research and development projects. The Company substantially modified and expanded Odesta's *Livelink* technology to render it compatible with Internet protocols and with the Company's information search and retrieval technology. The initial release of an integrated product took place in the spring of 1996. Further integration and improvements to the product continued to require the efforts of a substantial portion of the Company's research and development personnel. The Company has integrated and has plans to continue to integrate, technologies acquired with certain of the Acquired Businesses into *Livelink*. The cost of these integration activities are included in research and development expenses. The Company's estimates of the feasibility of research and development projects and the time and resources necessary to complete them are subject to a variety of uncertainties inherent in software research and development projects and may change as the projects proceed. See "Forward-Looking Statements". There can be no assurance that the Company will successfully complete all or any of these research and development projects in a timely manner or at all.

A number of competitive developments in certain of the Company's markets at the end of fiscal 1996, together with the recognition of the need to integrate and consolidate the activities of the Acquired Businesses resulted in a decision by the Company to focus its efforts on its *Livelink* product line that has been integrated with the Company's search technology and modified to be compatible with Internet protocols. After its initial release, customer interest in the *Livelink* was substantial. Initial customer installations, however, proceeded more slowly and required more resources than anticipated as the Company resolved installation issues and retained and trained newly-hired employees and employees of the Acquired Businesses to support full scale *Livelink* deployments. Further, the Company concluded that the market for intranet software presented an excellent market opportunity, but the likelihood of intense competition was foreseen. As a result, the Company concluded that focusing its technical, research and development, sales and marketing and management resources on the *Livelink* product line would enhance the product's market penetration.

In order to concentrate on the intranet market opportunity for *Livelink*, the Company stopped marketing the PC Search product developed from technology acquired with Intunix and stopped offering its Open Text 5 search engine as a stand-alone product. As a result of intensely competitive pricing practices of competitors with respect to Internet browsers and access software, the Company became unable to charge a price for Internet Anywhere (the Company's Internet access software) that covered the cost of sales of the product. Accordingly, the Company ceased marketing the product. The Company also determined that the level of expenditure and commitment of management and technical resources required to compete for advertising revenues with several well-financed providers of Internet search services was not justified by the advertising revenues being generated by the Open Text Index or likely to be generated in the future. Accordingly, the Company de-emphasized the development of the Open Text Index as a means of generating advertising revenue and has transformed the product into a business specific search index called *Livelink* Pinstripe.

As a part of its integration of the activities of the Acquired Businesses, and focusing its activities on its intranet-related products and services, the Company incurred a pre-tax restructuring charge of $3.4 million during the quarter ending June 30, 1996. Included in this charge was a $1.3 million expense relating to the phase out of Internet Anywhere retail activity, and a provision of $2.1 million related to fixed assets and leases involved consolidation of operations. During the quarter ending September 30, 1996, the Company announced the termination of a number of employees, which resulted in a charge to income of $650,000 for severance compensation and benefits. The restructuring was completed during the fourth quarter of fiscal 1997. The amount of the restructuring charges were equal to the costs of the restructuring.

On June 3, 1998 the Company acquired certain of the assets and liabilities of Information Dimensions for approximately $8.1 million which consists of cash paid on closing of $7.6 million and an accrual of $500,000 for contingent consideration that the Company expects it will be obligated to pay to the vendor one year from the closing date based on the delivery of a special purpose balance sheet of the assets and liabilities assigned as at May 31, 1998. In addition, the Company accrued acquisition costs of $8.2 million. See Note 16 of Notes to Consolidated Financial Statements. The operations of Information Dimensions have been included in the financial statements from the purchase date.

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately $8.3 million, including acquisition costs of $1.6 million, in a transaction which has been accounted for under the purchase method. See Note 16 of Notes to Consolidated Financial Statements. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of $6.2 million was paid at closing. Cash in the amount of $268,000 was paid prior to June 30, 1998 based on the final determination of OnTime's working capital.

The total of the acquisition accrurals for Information Dimensions and OnTime is $9.8 million. Of that amount, $2.0 million are direct costs of the acquisitions and $7.8 million represents costs to exit certain activities of Information Dimensions and OnTime. The costs to exit certain activities includes costs of relocation, costs to discontinue the development of certain products and involuntary termination costs of certain employees of Information Dimensions and OnTime. The company expects to communicate its involuntary termination plans to the effected employees in the first quarter of fiscal 1999 and expects to have all components of the costs to exit certain activities completed by the fourth quarter of fiscal 1999.

RESULTS OF OPERATIONS

During the year ended June 30, 1998, the Company sustained a loss of $5.8 million, or $0.33 per share. The following table presents, for the periods indicated, certain components of the selected financial data of the Company as a percentage of total revenues:

	Year Ended June 30,		
	1998	1997	1996
Revenues:			
License	65.4 %	60.6 %	65.8 %
Service	34.6	39.4	34.2
Total revenues	100.0	100.0	100.0
Cost of revenues:			
License	3.8	3.7	17.2
Service	16.7	29.3	20.9
Total cost of revenues	20.5	33.0	38.1
Gross Profit	79.5	67.0	61.9
Operating expenses:			
Research and development	17.4	29.2	45.3
Sales and marketing	49.2	74.5	84.7
General and administrative	10.3	20.5	36.6
Amortization	21.7	72.4	135.9
Restructuring	-	2.9	34.3
Total operating expenses	98.6	199.5	336.8
Loss from operations	(19.1)	(132.5)	(274.9)
Other income (expense)	0.6	0.3	1.4
Interest income	3.9	8.6	14.8
Interest expense	(0.3)	(0.7)	(1.3)
Loss for the year before income taxes	(14.9)	(124.3)	(260.0)
Income tax recovery	2.2	-	-
Net loss for the year	(12.7) %	(124.3) %	(260.0) %

The Company continues to seek out opportunities to acquire or invest in businesses, products and technologies that expand, compliment or are otherwise related to the Company's current business or products. The Company also considers from time to time opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. Such acquisitions, investments, joint ventures or other business initiatives may involve significant commitments of financial and other resources of the Company. There can be no assurance that any such activity will be successful in generating revenue, income or other returns to the Company, or that financial or other resources committed to such activities will not be lost.

Fiscal 1998 Compared with Fiscal 1997

Revenues. Total revenues include license revenues and service revenues which consists of consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relation to total value under the contract after providing for any anticipated losses under the contract. Revenues from customer support agreements, which are generally for a term not exceeding one year, are recorded as deferred revenue when the agreement is executed and are recognized on a pro rata basis over the term of the agreement. Payments under customer support agreements are generally made in advance. Revenues from training and integration services are recognized in the period in which the services are performed.

Total revenues increased 100% from $22.6 million in the year ended June 30, 1997 to $45.3 million in the year ended June 30, 1998. Revenues from licenses increased 116% from $13.7 million in the year ended June 30, 1997 to $29.6 million in the year ended June 30, 1998. The Company's *Livelink* software accounted for 100% of revenues from licenses in fiscal 1998, compared with 90% in fiscal 1997. Service revenues increased 75.7% from $8.9 million in the year ended June 30, 1997 to $15.7 million in the year ended June 30, 1998. The increase in service revenues was primarily attributable to an increase in integration services provided to new license customers and the increase in support contracts provided to new and existing customers.

Cost of revenues. Cost of license revenues consists primarily of the costs of royalties payable to companies whose software is bundled in the Company's products, product media, duplication, manuals and packaging, as well as software amortization on purchased software.

Cost of license revenues, increased from $848,000 in the year ended June 30, 1997 to $1.7 million in the year ended June 30, 1998, increasing from 3.7% to 3.8% of total revenue.

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 13.9% from $6.6 million in the year ended June 30, 1997 to $7.6 million in the year ended June 30, 1998, primarily due to additional personnel required to support the expanded activities of the technical services department. Cost of service revenues as a percentage of total revenues decreased from 29.3% in the year ended June 30, 1997 to 16.7% in the year ended June 30, 1998. The Company believes that it must continue to enhance its customer service and support capabilities as its customer base expands.

Research and development costs. Research and development expenses consist primarily of engineering personnel expenses, contracted research and development expenses and facilities and equipment costs. The Company presently expenses all research and development costs as incurred. See Note 2 of Notes to Consolidated Financial Statements.

Research and development costs increased by 19.6% from $6.6 million in the year ended June 30, 1997 to $7.9 million in the year ended June 30, 1998 and decreased as a percentage of total revenues from 29.2% in the year ended June 30, 1997 to 17.5% in the year ended June 30, 1998. The Company believes that significant investments in research and development are required to remain competitive in the software business. As a consequence, the Company expects the absolute amount of its expenditures on research and development to continue to increase, mainly through the employment of additional development personnel. See "Forward-Looking Statements".

Sales and marketing expenses. Sales and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising, trade shows, cost of facilities and other expenses related to the sales and marketing of the Company's products and services. Sales and marketing expenses increased 32.0% from $16.9 million in the year ended June 30, 1997 to $22.3 million in the year ended June 30, 1998 but decreased as a percentage of total revenues from 74.5% in the year ended June 30, 1997 to 49.2% in the year ended June 30, 1998. The increase in absolute dollars was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing, public relations activities, marketing materials, advertising and trade shows to promote *Livelink*. Sales and marketing expenses can be expected to increase in absolute dollars consistent with the Company's increased sales and marketing efforts. See "Forward-Looking Statements".

General and administrative expenses. General and administrative expenses consist primarily of salaries of administrative personnel and related overhead and facilities expenses. General and administrative expenses remained constant at $4.6 million in the year ended June 30, 1997 and in the year ended June 30, 1998 and decreased as a percentage of total revenues from 20.5% in the year ended June 30, 1997 to 10.3% in the year ended June 30, 1998. The Company has maintained the size of its management and administrative staff during the year and believes that the level of general and administrative expenses in future periods will increase in absolute dollars as the Company will install new management information systems and processes. See "Forward-Looking Statements."

Amortization expenses. Amortization expense, excluding amortization of acquired in-process research and development, was $1.7 million in the year ended June 30, 1997 and increased to $2.4 million in the year ended June 30, 1998 as a result of increased capital expenditures during the year. Amortization of acquired in-process research and development included in cost of license revenues decreased from $14.7 million in the year ended June 30, 1997 to $7.5 million in the year ended June 30, 1997. The decrease is a result of acquired in-process research and development from the acquisitions made in fiscal 1996 being fully amortized by September 30, 1997.

Other income. During fiscal 1997, the Company sold its investment in Yahoo! Corporation for a net gain of $5.8 million. Also during the year, reserves were taken against the value of certain investments and other assets, including General Internet Inc. in the amount of $3.9 million and MacRAE's O.E.M. Mart Inc. in the amount of $815,000. This resulted in other income of $57,000. Other income of $280,000 for fiscal 1998 consisted principally of foreign exchange gains and gains on the sale of fixed assets.

Interest. Interest expense has been incurred by the Company under capital equipment leases. Interest expense was $148,000 in the year ended June 30, 1997 compared to $125,000 in the year ended June 30, 1998. The Company earned interest income in the amount of $1.9 million during the year ended June 30, 1997 which decreased to $1.7 million for the year ended June 30, 1998 as a result of lower interest rates and lower average cash balances. See "Liquidity and Capital Resources."

Income taxes. A deferred tax asset of $16.4 million and $27.9 million existed as of June 30, 1997 and June 30, 1998 respectively. A valuation allowance is recorded against a deferred tax asset if it is more likely that not that the asset will not be realized. In accordance with Canadian GAAP, a valuation allowance continues to be recorded against a significant portion of the deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax asset under certain conditions.

Fiscal 1997 Compared with Fiscal 1996

Revenues. Total revenues increased 127% from $10.0 million in the year ended June 30, 1996 to $22.6 million in the year ended June 30, 1997. Revenues from licenses increased 109% from $6.6 million in the year ended June 30, 1996 to $13.7 million in the year ended June 30, 1997. The Company's information search and retrieval software and workflow, document management and collaborative computing software accounted for 90% of revenues from licenses in fiscal 1997, compared with 69% in fiscal 1996. Service revenues increased 160% from $3.4 million in the year ended June 30, 1996 to $8.9 million in the year ended June 30, 1997. The increase in service revenues was primarily attributable to an increase in integration services provided to new license customers and the increase in support contracts provided to new and existing customers.

Cost of revenues. Cost of license revenues, decreased from $1.7 million in the year ended June 30, 1996 to $848,000 in the year ended June 30, 1997, decreasing from 17.2% to 3.7% of total revenue. This was primarily due to decreased royalties payable as a result of the discontinuation of the Company's *Internet Anywhere* product at the end of fiscal 1996, as well as decreased packaging, and production costs after discontinuing *Internet Anywhere.*

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 217% from $2.1 million in the year ended June 30, 1996 to $6.6 million in the year ended June 30, 1997, primarily due to additional personnel required to support the expanded activities of the technical services department. Cost of service revenues as a percentage of total revenues increased from 20.9% in the year ended June 30, 1996 to 29.3% in the year ended June 30, 1997. The Company believes that it must continue to enhance its customer service and support capabilities as its customer base expands.

Research and development expenses. The following table sets forth gross and net research and development expenditures and investment tax credits for the periods indicated:

	Year Ended June 30,	
	1997	1996
	(in thousands)	
Gross research and development expenditures	$ 6,612	$ 5,201
Investment tax credits	-	(670)
Net research and development expenditures	$ 6,612	$ 4,531
Gross research and development expenditures as a percentage of total revenues	29.2%	52.0%
Net research and development expenditures as a percentage of total revenues	29.2%	45.3%

Net research and development costs increased by 45.9% from $4.5 million in the year ended June 30, 1996 to $6.6 million in the year ended June 30, 1997 and decreased as a percentage of total revenues from 45.3% in the year ended June 30, 1996 to 29.2% in the year ended June 30, 1997. The absolute dollar amount spent on research and development increased and reflected an increase in the number of personnel through hiring in support of the Company's research and development projects.

As a Canadian Controlled Private Corporation ("CCPC"), the Company qualified for certain investment tax credits under the Income Tax Act (Canada) on eligible research and development expenditures. Prior to the Company's initial public offering in January 1996, refundable investment tax credits, which result in cash payments to the Company, have been recorded at a rate of 35% of eligible current research and development expenditures, and at a rate of 20% of eligible capital research and development expenditures, with an additional 10% recorded at the provincial level effective January 1, 1995. Prior to the Company's initial public offering, the Company was entitled to an investment tax credit at these rates for the first Cdn $2.0 million of eligible current research and development expenditures and a further investment tax credit at the rate of 20% of eligible research and development expenditures in excess of Cdn $2.0 million. Investment tax credits on current expenditures earned at the 35% rate are fully refundable to CCPCs. Investment tax credits earned by a CCPC on capital expenditures and investment tax credits earned at the 20% rate are refundable at a rate of 40% of the amount of the credit. The Company now earns investment tax credits at a rate of 20% of eligible current and capital research and development expenditures made after December 31, 1995. While a portion of investment tax credits earned when the Company was a CCPC were refundable, investment tax credits earned subsequent to December 31, 1995 may only be used to offset income taxes otherwise payable.

Sales and marketing expenses. Sales and marketing expenses consist primarily of compensation of sales and marketing personnel as well as expenses for advertising, trade shows, cost of facilities and other expenses related to the sales and marketing of the Company's products and services. Sales and marketing expenses increased 99.3% from $8.5 million in the year ended June 30, 1996 to $16.9 million in the year ended June 30, 1997 but decreased as a percentage of total revenues from 84.7% in the year ended June 30, 1996 to 74.5% in the year ended June 30, 1997. The increase in absolute dollars was due principally to expenses associated with increases in the number of sales and marketing personnel and related salaries and commissions, as well as expenses related to marketing, public relations activities, marketing materials, advertising and trade shows to promote *Livelink*.

General and administrative expenses. General and administrative expenses increased 27.1% from $3.7 million in the year ended June 30, 1996 to $4.6 million in the year ended June 30, 1997 and decreased as a percentage of total revenues from 36.6% in the year ended June 30, 1996 to 20.5% in the year ended June 30, 1997. The increase in absolute dollars was attributable to an increase in salaries and other costs as the Company has grown in size and scope.

Amortization expenses. Amortization expense, excluding amortization of acquired in-process research and development, was $1.1 million in the year ended June 30, 1996 and increased to $1.7 million in the year ended June 30, 1997 as a result of increased capital expenditures during the year. Amortization of purchased software and goodwill in 1996 amounted to $1.0 million and $1.1 million, respectively including a charge at June 30, 1996 reflecting write-off of goodwill in connection with the Company's restructuring and was included in amortization expense. Amortization of acquired in-process research and development included in the cost of license revenues increased from $10.3 million in the year ended June 30, 1996 to $14.7 million in the year ended June 30, 1997. The increase is due to the amortization of acquired in-process research and development for InfoDesign, NIRV and NSG. As at June 30, 1997, the Company decided that the acquired in-process research and development of InfoDesign, NIRV and NSG had no further value based on management's periodic view of discounted future cash flows, among other factors, and wrote off all remaining acquired in-process research and development.

Other income. During fiscal 1997, the Company sold its investment in Yahoo! Corporation for a net gain of $5.8 million. Also during the year, reserves were taken against the value of certain investments and other assets, including General Internet Inc. in the amount of $3.9 million and MacRAE's O.E.M. Mart Inc. in the amount of $815,000. This resulted in Other income of $57,000. Other income for fiscal 1996 consisted principally of foreign exchange gains and gain on sale of fixed assets.

Interest. Interest expense has been incurred by the Company under capital equipment leases. Interest expense was $129,000 in the year ended June 30, 1996 compared to $148,000 in the year ended June 30, 1997. The Company recorded interest income in the amount of $1.5 million during the year ended June 30, 1996 which increased to $1.9 million for the year ended June 30, 1997.

Income taxes. A deferred tax asset of $9.2 million and $16.4 million existed as of June 30, 1996 and June 30, 1997 respectively. A valuation allowance is recorded against a deferred tax asset if it is more likely than not that the asset will not be realized. In accordance with Canadian GAAP, a 100% valuation allowance was recorded by the Company because of the lack of profitability in the past, the significant risk that taxable income would not be generated in the future and the nontransferable nature of the deferred tax asset under certain conditions.

QUARTERLY RESULTS

The Company has experienced significant fluctuations in quarterly results that have been caused by many factors, including changes in demand for the Company's products, the introduction or enhancement of products by the Company and its competitors, market acceptance of those products or enhancements, delays in the introduction of products or enhancements by the Company or its competitors, delays involved in installing products with customers, the mix of distribution channels through which products are sold, the mix of products and services sold, the mix of international and North American revenues, the integration of the Acquired Businesses into the Company's operations and general economic conditions. The results of operations of these businesses have also fluctuated from period to period due to factors similar to those that have affected the Company. As a result, the Company believes that period-to-period comparisons of its results of operations, either on an actual or pro forma basis, are not necessarily meaningful and should not be relied upon as any indication of future performance. In addition, like many other software companies, the Company has generally recognized a substantial portion of its revenues in the last quarter of each fiscal year and in the last weeks of each quarter. The Company's revenues for the quarter ended September 30 of each fiscal year generally have been lower than revenues for other quarters, however, it is uncertain whether this trend will continue in current or future periods. Due to all of the foregoing factors, the Company's operating results in a particular quarter may fail to meet market expectations.

LIQUIDITY AND CAPITAL RESOURCES

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements. The Company has financed its cash needs primarily through sales of securities.

At June 30, 1998, the Company had cash and cash equivalents of $40.4 million, current assets of $66.1 million and current liabilities of $27.5 million. The Company has credit facilities of $6.5 million, under which borrowings were insignificant as at June 30, 1998.

In January 1996, the Company completed an initial public offering with net proceeds of $61.4 million. The Company received net proceeds of approximately $20.6 million from sale of securities in private placements during fiscal 1996 before completion of the public offering. Cash used by operations during the year ended June 30, 1997 was $15.3 million. Sale of shares in Yahoo! Corporation generated $6.3 million. Purchase of other investments and additions to other assets were $1.4 million and $6.0 million respectively. Acquisitions of furniture and equipment was $2.6 million. Net cash used for the payment of capital lease obligations was $828,000. During fiscal 1997, the Company advanced approximately $4.0 million to General Internet Inc. ("General Internet"), a US based Internet service development company and converted these advances to a promissory note. During 1998, the Company converted the note to 433,333 shares of Series A Convertible Preferred Stock, 1,114,327 shares of Series B Convertible Preferred Stock and a Special Warrants to purchase 67,708 shares of General Internet common stock. In fiscal 1997, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc. ("MacRAE's) and loaned $1.1 million to MacRAE's in the form of a subordinated debenture.

On March 25, 1998, the Company issued 1,750,000 Special Warrants at a price of $20.85 per Special Warrant for net proceeds to the Company of $34.8 million. All of the Special Warrants were converted into 1,750,000 Common Shares on July 10, 1998 without payment of additional consideration. Cash used by operations during the year ended June 30, 1998 was $8.1 million. Acquisitions of furniture and equipment was $3.7 million. The purchase of OnTime and Information Dimensions resulted in a cash outflow of $5.5 million and $7.8 million respectively. The purchase of other investments resulted in a cash outflow of $2.4 million. Net cash used for the payment of capital lease obligations was $597,000.

The Company had liabilities with respect to capital leases of $344,000 at June 30, 1998 and operating lease obligations during fiscal 1998 of $2.2 million. The Company anticipates additional capital expenditures for equipment as the number of employees increases and to meet new technology needs.

Since June 30, 1995, the Company has completed the Acquisitions, hired additional employees, increased its sales, marketing and promotional activities, increased occupancy costs and otherwise increased the level of its business activity. This has resulted, and will continue to result, in cash requirements that significantly exceed those of previous years. The Company believes that existing cash and revenue from operations, will be sufficient to satisfy the Company's operational cash requirements until June 30, 1999. See "Forward-Looking Statements." However, the Company regularly evaluates acquisitions, investments, joint ventures and other business initiatives, and cash expenditures for acquisitions, investments, joint ventures and other business initiatives or unanticipated expenses could create a need for additional financing. In addition, if the Company's operations do not begin to generate cash sufficient to satisfy its needs, the Company ultimately would require additional financing. There can be no assurance that such financing would be available if required.

EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES AND INFLATION

The Company's earnings are affected by fluctuations in the value of the US dollar, as compared to foreign currencies, as a result of transactions in foreign markets. Approximately 32% of the Company's revenues in 1998 and 39% in 1997 has been earned in currencies other than the US dollar. A portion of the Company's operating expense, however, has been and will continue to be incurred in Canadian dollars. Accordingly, fluctuations in exchange rates between the United States dollar and other foreign currencies could materially affect the Company's results of operations. To date, the Company has not engaged in exchange rate hedging activities nor does the Company purchase or hold any derivative financial instruments for speculative purposes. To the extent that the Company implements hedging activities in the future with respect to foreign currency exchange transactions, there can be no assurance that the Company will be successful in such hedging activities.

While the Company believes that inflation has not had a material effect on its results of operations, there can be no assurance that inflation will not have a material effect on the Company's results of operations in the future.

YEAR 2000 COMPLIANCE

The approach of the year 2000 presents potential issues to all organizations who use computers in the conduct of their business or depend on business partners who use computers. To the extent computer use is date-sensitive, hardware or software that recognizes the year by the last two digits may erroneously recognize "00" as 1900 rather than 2000, which could result in errors or system failures.

The Company initiated its year 2000 compliance efforts in 1998. The initial focus of the Company's compliance efforts was on *Livelink*, however the review has now been expanded to include all of the Company's products and systems (including past products). The Company has retained outside consultants to assist it in its compliance review. The review and a determination of all compliance costs is expected to be completed by the end of calendar 1998. The Company's contingency plan will be formalized at the conclusion of this review.

Livelink obtains date information, such as creation dates and modification dates, directly from the computer's operating system. Thus, it is the Company's belief that the current version of *Livelink* is year 2000 compliant provided that third party software is not embedded therein and that the underlying operating systems are fully compliant. However, the Company has not yet completed the necessary testing in order to verify this compliance. Therefore, the primary risk for the Company's customer lies with their own computer operating systems. While operating systems companies have stated that their products will continue to operate properly into the twenty-first century, the Company has not conducted any tests with the operating systems companies to verify this.

There is also the possibility that in the coming year corporations, in dealing with their own Year 2000 issues, will defer some software purchases, except for the most urgent and those relevant to solving their own Year 2000 concerns. To the extent that this occurs, it could materially adversely affect the Company's results of operations.

In addition to any Year 2000 issues identified within the Company, it is not presently clear that all parts of the country's infrastructure, including such things as the national banking systems, electrical power, communications, and governmental activities, will be fully functioning as the Year 2000 approaches. To the extent failure occurs in such activities, which are outside the Company's control, it could affect the Company's ability to service its customers with the same degree of effectiveness with which they are served presently. The Company is identifying elements of the infrastructure that are of greater significance to its operations, obtaining information on an ongoing basis as to their expected Year 2000 readiness, and determining alternative solutions if required.

Financial Statements and Supplementary Data

Management's Report

Management is responsible for all the information and representations contained in the consolidated financial statements. Management believes that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada and appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included. In preparing the consolidated financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being accounted for.

In meeting its responsibility for the reliability of the consolidated financial statements, management depends on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization, and are recorded properly to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles. In designing control procedures, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors pursues its oversight role for these consolidated financial statements through the Audit Committee, which is comprised solely of Directors who are not officers or employees of the Company. The Audit Committee meets with management periodically to review their work and to monitor the discharge of each of their responsibilities. The Audit Committee also meets periodically with PricewaterhouseCoopers, the independent auditors, who have free access to the Audit Committee of the Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

PricewaterhouseCoopers is engaged to express an opinion on our consolidated financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the consolidated financial statements are not materially misleading and do not contain material errors.

P Thomas Jenkins
Chief Executive Officer

Thomas J Hearne
Chief Financial Officer

August 12, 1998

Auditors' Report

TO THE DIRECTORS AND SHAREHOLDERS OF OPEN TEXT CORPORATION

We have audited the consolidated balance sheets of Open Text Corporation as at June 30, 1998 and 1997 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1998, 1997 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these 1998 and 1997 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 1998 and 1997 and the results of its operations and cash flows for the years ended June 30, 1998, 1997 and 1996 in accordance with accounting principles generally accepted in Canada.

PricewaterhouseCoopers
Chartered Accountants

Kitchener, Canada
August 12, 1998

OPEN TEXT CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands of US Dollars, except share data)

	June 30, 1998	June 30, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,390	$ 31,762
Accounts receivable trade, net of allowance for doubtful accounts of $1,635 as at June 30, 1998 and $350 as at June 30, 1997	22,924	8,623
Prepaid expenses	2,834	2,407
Total current assets	66,148	42,792
Furniture and equipment (Note 3)	8,710	5,054
Software, net of accumulated amortization of $4,993 as at June 30, 1998 and $18,729 as at June 30, 1997	20,586	2,498
Other investments, at cost (approximates market value)	3,977	1,591
Other assets	4,553	2,908
	$ 103,974	$ 54,843
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade and accrued liabilities (Note 5)	$ 17,052	$ 7,092
Deferred revenues	10,112	1,857
Obligations under capital leases (Note 6)	344	941
Total current liabilities	27,508	9,890
Commitments (Note 9)		
Shareholders' equity:		
Share capital (Note 7)		
18,087,069 and 17,204,120 Common Shares issued and outstanding at June 30, 1998 and June 30, 1997 respectively	105,108	101,103
1,750,000 Special Warrants issued and outstanding	34,800	-
Other capital	155	2,076
Employee share purchase loans	-	(383)
Accumulated deficit	(63,597)	(57,843)
Total shareholders' equity	76,466	44,953
	$ 103,974	$ 54,843

Signed on behalf of the Board of Directors

P Thomas Jenkins

Michael Slaunwhite

See accompanying notes to consolidated financial statements

OPEN TEXT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of US Dollars, except share and per share data)

	Year Ended June 30, 1998	1997	1996
Revenues:			
License	$ 29,644	$ 13,736	$ 6,573
Service	15,656	8,912	3,422
Total revenues	45,300	22,648	9,995
Cost of revenues:			
License	1,711	848	1,719
Service	7,554	6,631	2,093
Total cost of revenues	9,265	7,479	3,812
	36,035	15,169	6,183
Operating expenses:			
Research and development	7,906	6,612	4,531
Sales and marketing	22,273	16,875	8,466
General and administrative	4,645	4,648	3,658
Amortization	9,865	16,402	13,582
Restructuring reserve	-	650	3,428
Total operating expenses	44,689	45,187	33,665
Loss from operations	(8,654)	(30,018)	(27,482)
Other income (Note 10)	280	57	145
Interest income	1,745	1,944	1,478
Interest expense	(125)	(148)	(129)
Loss before income taxes	(6,754)	(28,165)	(25,988)
Income tax recovery	1,000	-	-
Net loss for the year	$ (5,754)	$ (28,165)	$ (25,988)
Net loss per share, basic and fully diluted	$ (0.33)	$ (1.67)	$ (2.16)
Weighted average number of Common Shares outstanding, basic and fully diluted	17,679,987	16,865,644	12,042,006

See accompanying notes to consolidated financial statements

OPEN TEXT CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Shares		Special Warrants	
	Shares	Amount	Shares	Amount
Balance as of June 30, 1995	6,124	$ 2,645	-	$ -
Issuance of Special Warrants	-	-	-	-
Exercise of dissenters' rights	(391)	(131)	-	-
Issuance of Common Shares				
On conversion of special warrants	2,403	8,673	-	-
In connection with acquisitions	888	8,940	-	-
Under employee stock option plans	122	51	-	-
Under employee stock option plans in exchange for employee share purchase loans	1,675	240	-	-
In connection with private placements	1,182	11,956	-	-
From public offering, net of issuance cost of $2,755	4,600	61,415	-	-
On reversal of dissenters' rights	391	131	-	-
Common Shares set aside in connection with acquisitions	-	-	-	-
Repurchase of Common Shares	(758)	(357)	-	-
Loss for the year	-	-	-	-
Balance as of June 30, 1996	16,236	93,563	-	-
Issuance of Common Shares				
Conversion of shares set aside including employee stock options	672	7,040	-	-
Under employee stock option plans	296	500	-	-
Loss for the year	-	-	-	-
Balance as of June 30, 1997	17,204	101,103	-	-
Issuance of Common Shares				
Conversion of shares set aside	4	54	-	-
Under employee stock option plans	879	3,951	-	-
Issuance of Special Warrants	-	-	1,750	34,800
Reduction in original investments	-	-	-	-
Repayment of employee share purchase loans	-	-	-	-
Net loss for the year	-	-	-	-
Balance as of June 30, 1998	18,087	$ 105,108	1,750	$ 34,800

See accompanying notes to consolidated financial statements

Other Capital		Employee Share Purchase Loans	Accumulated Deficit	Total
Number	Amount			
-	$ -	$ -	$ (2,241)	$ 404
2,403	8,673	-	-	8,673
-	-	-	(1,389)	(1,520)
				-
(2,403)	(8,673)	-	-	-
-	-	-	-	8,940
-	-	-	-	51
				-
	-	(240)	-	-
-	-	-	-	11,956
				-
-	-	-	-	61,415
-	-	-	1,389	1,520
				-
883	9,116	-	-	9,116
-	-	-	(1,449)	(1,806)
-	-	-	(25,988)	(25,988)
883	9,116	(240)	(29,678)	72,761
(672)	(7,040)	(143)	-	(143)
-	-	-	-	500
-	-	-	(28,165)	(28,165)
211	2,076	(383)	(57,843)	44,953
(4)	(54)	-	-	-
-	-	-	-	3,951
-	-	-	-	34,800
(191)	(1,867)	-	-	(1,867)
-	-	383	-	383
-	-	-	(5,754)	(5,754)
16	$ 155	$ -	$ (63,597)	$ 76,466

OPEN TEXT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of US Dollars)

	Year Ended June 30,		
	1998	1997	1996
Cash flows from operating activities:			
Net loss for the year	$ (5,754)	$ (28,165)	$ (25,988)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization	9,865	16,402	13,582
Write-down of furniture and equipment	-	-	856
Other	(76)	-	-
Changes in operating assets and liabilities (net of assets) acquired in the period):			
Accounts receivable	(7,864)	(3,207)	(4,168)
Prepaid expenses and other current assets	415	(204)	(584)
Provision for restructuring	-	(2,339)	-
Accounts payable - trade and accrued liabilities	(5,095)	2,049	3,949
Cumulative foreign exchange effect	367	237	-
Gain on sale of other investments	-	(45)	-
Net cash used in operating activities	(8,142)	(15,272)	(12,353)
Cash flows from investing activities:			
Acquisitions of furniture and equipment	(3,733)	(2,623)	(2,356)
Purchase of other investments	(2,386)	(1,389)	(2,490)
Purchase of OnTime group net of cash acquired	(5,485)	-	-
Purchase of Information Dimensions group net of cash acquired	(7,829)	-	-
Purchase of Odesta	-	-	(5,305)
Purchase of InfoDesign	-	-	(1,081)
Proceeds of sale of other investments	-	6,345	(2,227)
Additions to other assets	(467)	(5,967)	(753)
Net cash used in investment activities	(19,900)	(3,634)	(14,212)
Cash flow from financing activities:			
Payments of obligations under capital leases, including current portion	(597)	(828)	(944)
Proceeds from issuance of Special Warrants	34,800	-	8,673
Proceeds from issuance of Common Shares	2,084	500	73,661
Employee share purchase loans	383	(143)	(240)
Repurchase of Common Shares	-	-	(1,806)
Decrease in bank indebtedness	-	-	(1,640)
Net cash provided by (used in) financing activities	36,670	(471)	77,704
Increase/(decrease) in cash and cash equivalents during the year	8,628	(19,377)	51,139
Cash and cash equivalents at beginning of the year	31,762	51,139	-
Cash and cash equivalents at end of the year	$40,390	$31,762	$51,139

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—NATURE OF OPERATIONS

The Company develops, markets, licenses and supports collaborative knowledge management application software for use on intranets, extranets and the Internet that enables users to find electronically stored information, work together in creative and collaborative processes, do group calendaring and scheduling and distribute or make available to users across networks or the Internet the resulting work product and other information. The Company's shares trade publicly on the NASDAQ Stock Market - National market, under the symbol OTEXF and on the Toronto Stock Exchange, under the symbol OTC.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements are expressed in US dollars and are prepared in accordance with Canadian generally accepted accounting principles. These principles conform in all material respects applicable to the Company, with accounting principles generally accepted in the United States, except as described in Note 18.

Basis of consolidation

The consolidated financial statements include the accounts of Open Text Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Accounting estimates

The preparation of financial statements in conformity with Canadian 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less at the date of acquisition are classified as cash equivalents.

Furniture and equipment

Furniture and equipment are stated at cost and are amortized on a declining balance basis over the estimated useful lives of the related assets, generally two to five years. Leased assets are amortized on a declining balance basis over the lesser of the estimated useful life or the lease term. Gains and losses upon asset disposal are taken into income in the year of disposition.

Revenue recognition

a) License revenues

License revenues consist primarily of revenues from software license agreements. Revenues from the sale of software products are recognized upon delivery of the product if remaining vendor obligations are insignificant and collection of the resulting receivable is probable.

b) Service revenues

Service revenues consist of revenues from consulting contracts, customer support agreements and training and integration services contracts. Contract revenues are derived from contracts to develop applications, conduct research and provide consulting services. Contract revenues are recognized under the percentage of completion method, using a methodology that accounts for costs incurred in relationship to total revenues under the contract after providing for any anticipated losses under the contract. Software maintenance revenues are deferred and recognized ratably over the life of the service contract. Revenues from training and integration services are recognized in the period in which the services are performed.

Research and development costs

Costs related to research, design and development of products are charged to research and development expense as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. To date, completing a working model of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any software development costs since such costs have not been significant.

Software acquired through acquisition is capitalized and amortized over a period not exceeding two years. Software is evaluated during each reporting period to determine that there is continuing economic value.

Income taxes

In December 1997, the Canadian Institute of Chartered Accountants issued a new pronouncement for accounting for income taxes that recommended the adoption of the liability method of accounting for income taxes rather than the deferral method. The Company has adopted the new pronouncement and applied the recommendations retroactively. The previous year's financial statements have not been restated, as the effect is insignificant.

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities, measured at tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Concentration of credit risk

The Company maintains the majority of its cash and cash equivalents in US dollar denominated Canadian federal government securities or short-term, interest-bearing, investment-grade securities and demand accounts of a major Canadian chartered bank or Commercial paper.

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains allowances for potential losses, and such losses have been within management's expectations. No single customer accounted for more than 10% of the accounts receivable balance at June 30, 1998. One customer accounted for 14% of the accounts receivable balance as at June 30, 1997.

Fair value of financial instruments

Carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, trade and accrued liabilities approximate fair value due to their short maturities. Based upon borrowing rates currently available to the Company for loans with similar terms, the carrying value of capital lease obligations approximate fair value.

Foreign currency translation

The Company's wholly owned subsidiaries operating in foreign countries are treated as integrated foreign operations. Monetary items have been translated into United States dollars at exchange rates prevailing at the balance sheet date; non-monetary items have been translated into United States dollars at historical exchange rates. Exchange gains and losses are reflected in the consolidated statement of operations in the year in which they occur.

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into United States dollars at exchange rates prevailing at the balance sheet date, and transactions included in income are translated at the average rate for the year. Exchange gains and losses resulting from the translation of these amounts are reflected in the consolidated statement of operations in the year in which they occur.

Computation of net loss per share

Net loss per share is computed using the weighted average number of common shares outstanding. The effect of stock options is excluded from the computation when their effect is antidilutive.

NOTE 3—FURNITURE AND EQUIPMENT

	June 30, 1998		
	Cost	Accumulated Amortization	Net
		(in thousands)	
Furniture and fixtures	$ 3,025	$ 1,182	$ 1,843
Office equipment	294	196	98
Computer hardware and software	14,122	8,233	5,889
Assets under capital leases	1,977	1,442	535
Leasehold improvements	539	194	345
	$ 19,957	$ 11,247	$ 8,710

	June 30, 1997		
	Cost	Accumulated Amortization	Net
		(in thousands)	
Furniture and fixtures	$ 1,481	$ 341	$ 1,140
Office equipment	138	63	75
Computer hardware and software	4,619	1,875	2,744
Assets under capital leases	1,843	953	890
Leasehold improvements	279	74	205
	$ 8,360	$ 3,306	$ 5,054

NOTE 4—BANK INDEBTEDNESS

The Company and its subsidiaries have credit facilities totaling $6.5 million (1997 - $7.0 million) that are secured by a general security agreement, at prime rate of interest (6.5% as of June 30, 1998). During 1998, 1997 and 1996, borrowings and interest cost on bank indebtedness were insignificant.

NOTE 5—ACCOUNTS PAYABLE—TRADE AND ACCRUED LIABILITIES

Accounts payable - trade and accrued liabilities are as follows:

	June 30,	
	1998	1997
	(in thousands)	
Accounts payable - trade	$ 2,734	$ 1,234
Accrued trade liabilities	3,061	2,373
Amounts payable for acquisitions	7,196	1,037
Accrued salaries and commissions	4,173	1,237
Other liabilities	(112)	1,211
	$ 17,052	$ 7,092

NOTE 6—OBLIGATIONS UNDER CAPITAL LEASES

Obligations under capital leases are as follows:

	June 30, 1998 (in thousands)
1998	$ 294
1999	79
2000	7
	380
Less: Imputed interest	36
	$ 344

Interest paid on capital leases amounted to $63,000 in 1998, $80,000 in 1997 and $91,000 in 1996.

NOTE 7—SHARE CAPITAL

The authorized share capital of the Company is an unlimited number of Common Shares.

On March 25, 1998, the Company issued 1,750,000 Special Warrants convertible into Common Shares at a price of $20.85 per Special Warrant for net proceeds to the Company of $34.8 million. Each Special Warrant entitled the holder, upon exercise of the conversion rights contained therein, to acquire one Common Share, without any additional payment, at any time after May 5, 1998 and up to and including 5:00 pm (EST) on the date which is the earlier of (a) the fifth business day after the date as of which the last of the Ontario and Quebec Securities Commissions shall have issued a receipt for a final prospectus qualifying the distribution of the Common Shares issuable on the conversion of the Special Warrants; and March 25, 1999. A receipt for a final prospectus was filed on July 2, 1998 and all the Special Warrants were converted on July 10, 1998 without additional consideration.

NOTE 8—OPTION PLANS

1998 Stock Option Plan

On June 23, 1998, the Board of Directors adopted the Company's 1998 Stock Option Plan (the "New Option Plan"). Under the New Option Plan, non-transferable options to purchase Common Shares may be granted to employees and directors of, and persons providing services to, the Company and its subsidiaries based on eligibility criteria set forth in the New Option Plan. The exercise price of any option to be granted under the New Option Plan is to be determined by the Board of Directors of the Company but shall not be less than the closing price of the Common Shares on the day immediately preceding the date of grant on the quotation system or stock exchange which had the greatest volume of trading of Common Shares. The maximum number of Common Shares issuable pursuant to the New Option Plan is 294,082 and the aggregate number of Common Shares reserved for issuance to any one person pursuant to the options granted under the New Option Plan or any other share compensation arrangement shall not exceed five percent (5%) of the outstanding Common Shares. The number of Common Shares reserved for issuance pursuant to all options granted to insiders under the New Option Plan and other share compensation arrangements shall not exceed fifteen percent (15%) of the outstanding Common Shares. In addition, the issuance to any one insider and such insider's associates, within a one-year period, of Common Shares issued pursuant to all share compensation arrangements may not exceed five percent (5%) of the outstanding Common Shares and the issuance to all insiders, within a one-year period, of Common Shares issued pursuant to all share compensation arrangements may not exceed ten percent (10%) of the outstanding Common Shares.

The New Option Plan provides that the Company may make loans, the repayment of which shall be secured by the Common Shares purchased with the proceeds of such loans, or provide guarantees for loans to assist option holders to purchase Common Shares upon exercise of options granted pursuant to the New Option Plan or to assist option holders in payment of taxes exigible upon exercise of options granted pursuant to the New Option Plan. The terms of any option granted under the New Option Plan will not be permitted to exceed ten years.

Under the New Option Plan, the options for directors and senior officers will vest over a period specified by the Board of Directors at the time of grant. If an option holder resigns or ceases to be an employee or director of the Company or ceases to be engaged by the Company other than for cause or breach of duty, options held by such holder may be exercised prior to the 90th day following such occurrence. If an option holder ceases to be an employee or director of the Company or ceases to be engaged by the Company for cause or breach of duty, no options held by such holder may be exercised, and the option holder shall have no rights to any Common Shares in respect of such options following the date of notice of such cessation or termination, except in accordance with a written agreement with the Company.

The New Option Plan is administered by the Board of Directors, which has the authority, subject to the terms of the New Option Plan, to determine the persons to whom options may be granted, the exercise price and number of shares subject to each option, the time or times at which all or a portion of each option may be exercised and certain other provisions of each option, including vesting provisions.

During fiscal 1998, additional new options to purchase 25,000 Common Shares were granted under the New Option Plan at an exercise price of $15.375.

1995 "Restated" Flexible Stock Incentive Plan

In June 1995, the Company adopted the 1995 Flexible Stock Incentive Plan (the "Incentive Plan") for employees, officers, directors and consultants. The plan allowed the grant of options to purchase an aggregate of 782,500 Common Shares at an exercise price of $0.15 per share.

Options granted under the Incentive Plan vest over a four or five year period. Under the Incentive Plan, options are exercisable for a period of up to seven years from the grant date. Vested options terminate immediately upon an optionee's termination "for cause" and 90 days after termination for any other reason. Unvested options terminate immediately upon the termination of an optionee's employment or service to the Company.

During October 1995, additional options to purchase 250,000, 37,000 and 18,500 Common Shares were granted under the Incentive Plan at exercise prices of $3.87, $9.93 and $10.00, respectively.

The Company granted additional options arising from acquisitions under the Incentive Plan. A total of 25,578 options to purchase Common Shares were granted to shareholders of Intunix at an exercise price of $5.62 and vested as to 40% of the Common Shares immediately and the remainder will vest over four years at a rate of 15% per year. A total of 32,092 options to purchase Common Shares were granted to the shareholders of Network Software Group Inc. at an exercise price of $10.75 and will vest over a four year period commencing June 21, 1996. A total of 21,521 options to purchase Common Shares were granted to the shareholders of NIRV at an exercise price of $11.875 and vested immediately.

During fiscal 1997, additional new options to purchase 3,902,514 Common Shares were granted under the Incentive Plan at exercise prices between $4.25 and $10.25. The Board of Directors increased the number of Common Shares available under the Incentive Plan to accommodate these grants.

During fiscal 1998, additional new options to purchase 1,568,057 Common Shares were granted under the Incentive Plan at exercise prices between $9.25 and $21.00. The Board of Directors increased the number of Common Shares available under the Incentive Plan to accommodate these grants.

1995 Replacement Stock Option Plan

In October 1995, the Company adopted the 1995 Replacement Stock Option Plan (the "Replacement Plan"). The Replacement Plan provides for the granting of options to purchase an aggregate of 548,255 Common Shares to directors, officers, employees and consultants of Odesta who held options under Odesta's stock option plan. Options to purchase 548,255 Common Shares have been issued at an exercise price of $0.0005 per share and vest immediately.

Under the Replacement Plan, options are exercisable for a period of a ten years from the grant date. Replacement Options terminate immediately upon the termination of an optionee's employment or service to the Company "for cause" and 90 days after termination for any other reason.

1995 Supplementary Stock Option Plan

In October 1995, the Company adopted the 1995 Supplementary Stock Option Plan. This Plan provides for the granting of options to purchase an aggregate of 357,500 Common Shares to eligible former directors, officers and employees of Odesta. Options to purchase 357,500 Common Shares have been issued at an exercise price of $14.00

per share. Options granted under the Supplementary Plan vest over a two-year period. Under the Supplementary Plan, options are exercisable for a period of ten years from the grant date. Vested options terminate 90 days after termination of an optionee's employment or service to the Company for any reason.

1995 Directors Stock Option Plan

The Directors Stock Option Plan (the "Directors Plan") provides for the granting of options to purchase an aggregate of 50,000 Common Shares to eligible non-employee directors of the Company. This was subsequently increased by 500,000. In accordance with the Directors Plan, the Plan Administrator determines the non-employee directors for the Company to whom options are granted, the number of Common Shares subject to each option, the exercise price and vesting schedule of each option. At June 30, 1998, 420,000 options had been granted to date under the Directors Plan of which 324,000 options in total are outstanding and eligible to purchase Common Shares as follows: 104,000 options at an exercise price of $6.63 vesting over four years; 12,000 options at an exercise price of $9.97 vesting over four years; 76,000 options at an exercise price of $11.18 vesting over four years; 44,000 options at an exercise price of $12.90 vesting over four years and 88,000 options at an exercise price of $14.81 vesting over four years.

Option Exchange Program

On September 10, 1996, the Board of Directors authorized an option exchange program (the "Program") whereby employees who have been granted options to acquire Common Shares of the Company under the 1995 Flexible Stock Incentive Plan (the "Flexible Plan") and the 1995 Supplementary Stock Option Plan (the "Supplementary Plan") were permitted to exchange those options on a one-for-one basis, for an option to acquire Common Shares of the Company with an exercise price of $4.25 (the "Exchange Options"). This was subsequently approved by the shareholders. The Exchange Options vest and become exercisable, as to 10% of the Common Shares subject to option, the later of six months after the date of grant or the date the original option was scheduled to first vest (the "initial vesting date"), as to the next 10% of the Common Shares subject to option, six months after the initial vesting date, and as to the remainder of the Common Shares subject to option, 5% at the end of each quarter following one year after the initial vesting date.

A total of 510,452 options to acquire Common Shares of the Company from the Flexible and Supplementary plans were eligible for exchange under the Program with an average exercise price of $12.89. A total of 140,830 options under the Flexible Plan with a weighted average exercise price of $10.90 were exchanged for 140,830 Exchange Options and 335,000 options under the Supplementary Plan with an exercise price of $14.00 were exchanged for 335,000 Exchange Options.

Summary of Outstanding Stock Options

As of June 30, 1998, options to purchase an aggregate of 5,066,090 Common Shares were outstanding under all of the Company's stock option plans out of an allowable pool of options totaling 5,335,172. Options to purchase 1,055,020 Common Shares were fully vested, and the remaining options vest over the next four years.

A summary of option activity since June 30, 1995 is set forth below:

	Options Outstanding	
	Number	Weighted Average Exercise Price
Options outstanding at June 30, 1995	2,299,833	$ 0.52
Granted during fiscal 1996	1,292,446	$ 5.55
Canceled and expired	-	$ -
Exercised	(1,797,523)	$ 0.24
Options outstanding at June 30, 1996	1,794,756	$ 1.10
Granted during fiscal 1997 (new)	3,902,514	$ 7.29
Exchanged under the Program	475,830	$ 4.25
Canceled and expired	(260,931)	$ 4.82
Exercised	(700,833)	$ 0.31
Exchanged	(475,830)	$ 12.89
Options outstanding at June 30, 1997	4,735,506	$ 5.65
Granted during fiscal 1998	1,813,057	$ 11.30
Cancelled and expired	(653,977)	$ 5.51
Exercised	(828,496)	$ 4.73
Options outstanding at June 30, 1998	5,066,090	$ 7.62

The following table summarizes information regarding stock options outstanding at June 30, 1998:

	Options Outstanding			Option Exercisable	
Range of Exercise Prices	Number Outstanding at June 30, 1998	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Weighted Number Outstanding at June 30, 1998	Average Exercise Price
$ 0.0005 - $ 0.15	203,875	6.74	$ 0.14	108,276	$ 0.13
$ 3.98 - $ 6.63	2,268,762	8.29	$ 5.50	596,811	$ 5.35
$ 6.75 - $ 8.38	922,570	8.86	$ 8.18	213,450	$ 8.17
$ 8.50 - $ 11.25	1,074,907	9.1	$ 9.70	128,632	$ 9.48
$ 11.62 - $ 21.00	595,976	9.5	$ 13.61	7,851	$ 15.62
$ 0.0005 - $ 21.00	5,066,090	8.64	$ 7.62	1,055,020	$ 5.96

EMPLOYEE STOCK PURCHASE PLAN

On March 5, 1998, the shareholders of the Company approved an Employee Stock Purchase Plan (“ESPP”) whereby employees of the Company can subscribe to purchase Common Shares through payroll withholdings from the treasury of the Company at 85% of the lessor of: (1) the weighted average fair market value of the Common Shares of the five business days preceding the first business day of the purchase period and (2) the weighted average fair market value of the Common Shares of the last five business days of the purchase period. An aggregate 500,000 Common Shares have been reserved for purchase under the ESPP, subject to adjustments in the event of stock dividends, stock splits, combinations of shares, or other similar changes in capitalization of the Company.

NOTE 9—COMMITMENTS

Operating leases

The Company has entered into operating leases for premises with minimum annual rents as follows:

	June 30, 1998 (in thousands)
1999	$ 3,100
2000	2,692
2001	2,240
2002	1,250
2003	1,250
Thereafter	7,243
	$ 17,775

Rent expense amounted to $2.2 million in 1998, $1.3 million in 1997 and $737,000 in 1996.

NOTE 10—OTHER INCOME

During 1997, the Company disposed of its investment in Yahoo! Corporation ("Yahoo") for proceeds of $6.3 million and a net gain of $5.8 million.

Also during the year, reserves were taken against certain investments and other assets where Management as part of its regular review of the carrying value of its investments has determined there to be a permanent impairment in value. A summary of these items is as follows:

	June 30,		
	1998	1997	1996
		(in thousands)	
Gain on sale of Yahoo common shares	$ -	$ 5,845	$ -
Loss provision for General Internet Inc	-	(3,906)	-
Loss provision for valuation of other investments	-	(1,523)	-
Loss provison for other assets individually less than $200,000	-	(371)	-
Gain on sale of other investments	-	45	-
Balance of other income	280	12	145
Other income	$ 280	$ 57	$ 145

The remaining carrying cost of all investments approximate their market value of $4.0 million.

On October 17, 1996, pursuant to an agreement signed on the date between the Company and General Internet Inc. ("General Internet"), the Company converted its advances to General Internet to a promissory note, due no later than October 17, 1998, bearing a stated interest rate of 8.25% per annum, and secured by a security agreement subordinating the promissory note to a second position of not more than $25.0 million of debt or equity General Internet may otherwise secure and a right to a minority interest. The secured promissory note from General Internet totaled $3.9 million. The secured promissory note's face value was calculated as $3.7 million representing a discount based on the difference between the rate of return associated with financing a start-up venture and the stated interest rate of 8.25% and was included in Other assets. The discount of $220,000 was charged to operations in the first quarter of fiscal 1997.

In March 1997, the Company determined that the value of the promissory note was permanently impaired requiring a further write down of $3.7 million which was charged to operations as of March 31, 1997. In April 1998, the Company converted the promissory note into Series A and B Convertible Preferred Shares and Special Warrants of General Internet.

NOTE 11—INCOME TAXES

The Company's consolidated income tax provision has been determined as follows:

	Year Ended June 30,		
	1998	1997	1996
		(in thousands)	
Loss before income taxes	$ (6,754)	$ (28,165)	$ (25,988)
Combined basic Federal and Provincial income taxes at 44.6% as of June 30, 1998, 1997 and 1996	$ 3,012	$ 12,562	$ 11,591
Decrease resulting from:			
Cumulative translation account	-	(106)	-
Non-deductible amortization, including acquired research and development	-	(6,562)	(5,441)
Unrecorded benefit of temporary differences	(3,012)	(5,894)	(6,150)
Reduction in valuation allowance	1,000	-	-
Income tax recovery	$ 1,000	$ -	$ -

The Company's pre-tax loss for the year is allocated to tax jurisdictions as follows:

	Year Ended June 30,		
	1998	1997	1996
Canada	$ (6,919)	$ (25,723)	$ (22,822)
United States	(442)	(1,123)	(2,243)
Other	607	(1,319)	(923)
	$ (6,754)	$ (28,165)	$ (25,988)

The Company and its subsidiaries have approximately $63.4 million of losses and deductions available to reduce taxable income in future years, the benefit of which has only partially been reflected in the financial statements. Deductions of $32.3 million have no expiration date, and the balance of losses expire as follows:

Year Ended June 30	(in thousands)
1999	$ 563
2000	748
2001	2,420
2003	13,793
2004	3,624
2005	8,081
Thereafter	1,854
	$ 31,083

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and reporting purposes and amounts used for income tax purposes.

Significant components of the Company's deferred income tax balances consist of the following:

	June 30, 1998	June 30, 1997
	(in thousands)	
Losses available to offset future income taxes	$ 13,641	$ 9,933
Acquired research and development expenses deducted for accounting in excess of tax	6,202	3,704
Acquisition related expenses	3,158	-
Share issue costs	2,454	2,592
Other differences	2,434	143
Gross deferred tax assets	27,889	16,372
Less: Valuation allowance	(26,889)	(16,372)
Net deferred tax assets	$ 1,000	$ -

A valuation allowance continues to be recorded against a significant portion of the net deferred tax asset by the Company because of the lack of profitability in the past, the significant risk that taxable income will not be generated in the future and the nontransferable nature of the deferred tax assets in certain situations.

NOTE 12—RELATED PARTY TRANSACTIONS

In fiscal 1997, the Company, together with a company controlled by a director of the Company and individuals not related to the Company, incorporated MacRAE's O.E.M. Mart, Inc., a Delaware Corporation ("MacRAE's"). The Company retained a 70% interest in MacRAE's. On that date, the Company also loaned $1.1 million to MacRAE's in the form of a subordinated debenture bearing an annual interest rate of 7.08% and repayable on December 31, 2007. The debenture was included in other investments and was subsequently written down to its realizable value (see Note 10, Other Income). MacRAE's purchased, from a company controlled by a director of the Company, for $365,000 the business to publish and sell the industrial directory, "MacRAE's Blue Book" and sell print advertising and information services in combination with sponsorships on its industry content web site, "Internet Mall." As of June 30, 1998 the Company has a plan to dispose of the investment and therefore carries its investment in MacRAE at cost. Operations of MacRAE's since incorporation through to June 30, 1998 are insignificant.

In 1996, the Company purchased 137,500 common shares of another investment from a shareholder of the Company for $550,000 which represented the carrying cost of the investment.

NOTE 13—FOREIGN REVENUE AND MAJOR CUSTOMERS

The Company licenses its software internationally and generates revenues from customers outside Canada, primarily the United States. The following table summarizes revenues from foreign customers for the periods indicated:

	Year Ended June 30, 1998	1997	1996
		(in thousands)	
United States	$ 27,758	$ 13,729	$ 4,427
Europe	11,514	3,454	1,110
Japan	1,111	495	1,159
Korea	-	-	921
Other foreign countries	457	21	498
	$ 40,840	$ 17,699	$ 8,115

In fiscal 1998, 1997 and 1996, no customers accounted for 10% or more of total revenues.

NOTE 14—SEGMENT INFORMATION

The Company's operations consists of a single line of business to develop, market, license and support software. This software enables users to find electronically stored information, work together in creative and collaborative processes, and distribute or make available to users across networks or the Internet the resulting work product or information.

The Company has sales and marketing operations located outside North America, primarily in Europe.

Financial data by geographic area:

	North America	Europe	Other	Total
	(in thousands)			
Revenues:				
June 30, 1998	$ 32,397	$ 11,514	$ 1,389	$ 45,300
June 30, 1997	18,678	2,472	1,498	22,648
June 30, 1996	6,260	1,150	2,585	9,995
Loss from operations:				
June 30, 1998	$ (9,676)	$ 1,022	$ -	$ (8,654)
June 30, 1997	(29,482)	(536)		(30,018)
June 30, 1996	(26,605)	(877)	-	(27,482)
Identifiable assets:				
June 30, 1998	$ 99,827	$ 4,147	$ -	$ 103,974
June 30, 1997	52,644	2,199	-	54,843
June 30, 1996	82,315	1,054	-	83,369

NOTE 15—SUPPLEMENTAL CASH DISCLOSURES

	June 30, 1998	1997	1996
	(in thousands)		
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 125	$ 148	$ 129
Supplemental Schedule of non cash investing and financing activities:			
Equipment purchased under capital leases	-	400	2,007
Conversion of special warrants to Common Shares	-	-	8,673
Conversion of shares set aside to Common Shares	54	7,040	-
Acquisitions (see Note 16)		-	-
Assets acquired, excluding cash	-	-	419
Purchased software	-	-	979
Goodwill and other intangible assets	-	-	1,890
Purchased research and development	-	-	27,555
Liabilities assumed in acquisitions	-	-	1,103

NOTE 16—ACQUISITIONS

Information Dimensions

On June 3, 1998 the Company acquired certain of the assets and liabilities of Information Dimensions for approximately $8.1 million which consists of cash paid on closing of $7.6 million and an accrual of $500,000 for contingent consideration that the Company expects it will be obligated to pay to the vendor one year from the closing date based on the delivery of a special purpose balance sheet of the assets and liabilities assigned as at May 31, 1998. In addition, the Company accrued acquisition costs of $8.2 million. The operations of Information Dimensions have been included in the financial statements from the purchase date.

A key element of the acquisition is the Company's perception of the value of Information Dimensions document management technology. Although Information Dimensions is a leading document management technology, it is the Company's belief that substantial development will be required to complete the software technology to meet the Company's strategic goals.

The Company allocated the total purchase price and restructuring costs to the assets acquired as follows:

	(in thousands)
Tangible net liabilities	$ (2,876)
Current software products	2,250
Software technology under development	8,726
Acquisition related expenses	8,150
	$ 16,250

The software technology valuation was accomplished through the application of an income approach. Projected debt-free income, revenue net of provision for operating expenses and income taxes were discounted to a present value. Software technology was divided into two categories:

- current software products
- software technology under development

Current software products include products currently in the marketplace as of the acquisition date. The fair market value of the purchased current software products was determined to be $2.25 million. This amount was recorded as an asset and is being amortized on a straight-line basis over two years. Software technology under development included the value of products still in the development stage and not considered to have reached technological feasibility stage.

As a result of the valuation, the fair market value of the development costs was determined to be $16.9 million.

OnTime

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately $8.3 million, including acquisition costs of $1.6 million, in a transaction which has been accounted for under the purchase method. The purchase price is subject to adjustment based on delivery of a special purpose balance sheet of the assets and liabilities assigned as at November 30, 1997. The operations of OnTime have been included in the financial statements from the purchase date. Cash in the amount of $6.2 million was paid at closing. Cash in the amount of $268,000 was paid prior to June 30, 1998 based on the final determination of OnTime's working capital.

A key element of the acquisition is the Company's perception of the value of OnTime's calendaring and scheduling technology. Although OnTime is a leading calendaring and scheduling technology, it is the Company's belief that substantial development will be required to complete the software technology to meet the Company's strategic goals.

The Company allocated the total purchase price to the assets acquired as follows:

	(in thousands)
Tangible net liabilities	$ (614)
Current software products	1,728
Software technology under development	5,586
Acquisition related expenses	1,600
	$ 8,300

The software technology valuation was accomplished through the application of an income approach. Projected debt-free income, revenue net of provision for operating expenses and income taxes were discounted to a present value. Software technology was divided into two categories:

- current software products
- software technology under development

Current software products include products currently in the marketplace as of the acquisition date. The fair market value of the purchased current software products was determined to be $1.728 million. This amount was recorded as an asset and is being amortized on a straight-line basis over two years. Software technology under development included the value of products still in the development stage and not considered to have reached technological feasibility stage.

As a result of the valuation, the fair market value of the development costs was determined to be $7.2 million.

The Company subsequently revised the software technology under development valuation for OnTime resulting in an additional writedown of $1.5 million and this amount has been included in acquired research and development.

The following pro forma consolidated information shows the results of operations for the years ended June 30, 1998 and 1997 as if the above acquisitions had occurred on July 1, 1996 and acquired research and development costs were expensed as of July 1, 1996. The proforma information is presented for information purposes only and is not necessarily indicative of what would have occurred if the acquisitions had been made as of those dates. In addition, the pro forma information is not intended to be a projection of future results expected to result from the integration of the acquired businesses.

	Year ended June 30,	
	1998	1997
	(in thousands, except share and per share data)	
Pro forma total revenues	$ 69,494	$ 53,473
Pro forma loss for the year	$ (15,371)	$ (69,023)
Weighted average number of Common Shares outstanding	17,679,987	16,865,644
Pro forma loss per share	$ (0.87)	$ (4.09)

Of the accrual of acquisition costs for the OnTime and Information Dimensions acquisitions of $9.8 million, $7.98 million represents the costs to exit certain activities of the Acquired Companies as well as the cost of involuntary termination and relocation of certain employees of both of the Acquired Companies. The cost to exit certain activities includes costs to close locations of the Acquired Companies as well as the cost to discontinue development of certain products, which it expects to complete by the fourth quarter of fiscal 1999. The costs of involuntary termination represents the estimated costs to terminate employees whose positions have become redundant within the organization or who were involved in products the Company will discontinue. The Company has not yet determined the full extent of the restructuring nor has it communicated the termination and relocation plans to its employees. The Company expects its plan of termination and relocation to be formalized in the first quarter of fiscal 1999 and completed by the fourth quarter of fiscal 1999.

A summary of the acquisition costs that represent the costs to exit certain activities and involuntary termination and relocation costs is as follows:

	As of acquisition	Charges to reserve	June 30, 1998
		(dollars in thousands)	
Costs to exit certain activities	$ 2,486	$ (1,161)	$ 1,325
Involuntary termination and relocation	$ 5,494	$ (1,592)	$ 3,902
	$ 7,980	$ (2,753)	$ 5,227

Shares set aside

Pursuant to certain settlement agreements, the Company's obligation to issue shares in connection with its acquisitions of InfoDesign, NSG Software, NIRV, Softcore and Intunix have diminished. Income for the period reflects the reduction in shares set aside resulting from these settlement agreements.

NOTE 17—NET LOSS PER SHARE

The following table is a reconciliation of the earnings and share amounts used in the calculation of basic loss per share and fully diluted loss per share:

	Year Ended June 30,		
	1998	1997	1996
	(dollars in thousands except per share amounts)		
Loss available to common shareholders	$ (5,754)	$ (28,165)	$ (25,988)
Weighted average basic shares outstanding	17,679,987	16,865,644	12,042,006
Basic and fully diluted loss per share	$ (0.33)	$ (1.67)	$ (2.16)

The effect of options and warrants have been excluded from the calculation of basic and fully diluted net loss per share as their effect would have been anti-dilutive.

Subsequent to the year end, the holders of the Special Warrants exercised their right under the Special Warrants and converted their Special Warrants into common shares of the Company. On July 10, 1998, an additional 1,750,000 shares were issued in connection with these Special Warrants. Basic and fully diluted net loss per share would be $(0.32) had these Special Warrants been converted prior to the year end.

NOTE 18—UNITED STATES ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. ("Canadian GAAP"), which conform in all material respects applicable to the Company, with those in the United States ("U.S. GAAP") during the periods presented except with respect to the following:

(a) in accordance with Canadian GAAP, it is the Company's policy to capitalize and amortize acquired in-process research and development. Under U.S. GAAP, acquired in-process research and development is expensed, net of the benefit of tax loss carryforwards. Therefore, for U.S. GAAP purposes, for the years ended June 30, 1998, 1997 and 1996, acquired in-process research and development expensed would increase by and net loss would increase by $7,491, $14,713 and $10,344;

(b) in accordance with Canadian GAAP, the Company's wholly owned subsidiaries operating in foreign countries are treated as integrated foreign operations. In accordance with U.S. GAAP, assets and liabilities of certain foreign subsidiaries, whose functional currency is the local currency, are translated from their respective functional currencies to U.S. dollars at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average rates of exchange prevailing during the year. The adjustment resulting from the translation reduced net loss for the years ended June 30, 1998, 1997 and 1996 by $367,000, $237,000 and nil respectively.

The following table reconciles net loss for the periods reported in the accompanying statements of income with that which would have been reported had the financial statements been presented in accordance with U.S. GAAP:

	Year ended June 30,		
	1998	1997	1996
	(dollars in thousands except per share amounts)		
Net loss in accordance with Canadian GAAP	(5,754)	(28,165)	(25,988)
Adjustments:			
Acquired research and development	(25,579)	-	(27,555)
Amortization of acquired research and development	7,491	14,713	10,344
Foreign exchange loss	367	237	-
Net loss in accordance with US GAAP	(23,475)	(13,215)	(43,199)
Basic and diluted loss per share under US GAAP	(1.33)	(0.78)	(3.59)

The following table indicates the items in the balance sheet that would be affected had the financial statements been prepared in accordance with US GAAP:

	June 30,			
	1998		1997	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
	(dollars in thousands)			
Software, net	20,586	-	2,498	-
Accumulated deficit	(63,597)	(83,239)	(57,843)	(59,764)
Cumulative translation account	-	(944)	-	(577)

NOTE 19—RECLASSIFICATION

The accounts for the comparative periods have been reclassified to conform with the presentation adopted in the current year.

OPEN TEXT CORPORATION

NOTES

O P E N T E X T C O R P O R A T I O N

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Brett Newbold
OPEN TEXT CORPORATION

Richard C Black, Vice President
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Daniel Cheifetz
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Randy Fowlie, Chief Financial Officer
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CHIEF EXECUTIVE OFFICER

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PRESIDENT

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EXECUTIVE VICE PRESIDENT — SOFTWARE DEVELOPMENT

Marc Schnabolk
VICE PRESIDENT — NORTH AMERICAN SALES

Kirk Roberts
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December 16, 1998

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COMMON STOCK

NASDAQ
National Market System
Ticker Symbol: OTEXF

Toronto Stock Exchange
Ticker Symbol: OTC

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