OPEN TEXT CORPORATION

EFFECTIVE SOLUTIONS. DRIVEN BY VISION. POWERED BY INNOVATION.

1999 ANNUAL REPORT

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Open Text Corporation

"In the information economy, it is becoming clear that the critical survival factor is how quickly and how well a corporate community exchanges ideas and leverages its collective knowledge to innovate for the benefit of the customer. Building on Internet technology, Open Text has created an increasingly varied offering that helps break down important barriers to the organization's ability to collaborate & respond."

Hadley Reynolds,
The Delphi Group

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Fiscal Year 1999 proved to be one of phenomenal success and dramatic growth for Open Text Corporation. Among our many achievements, we are very pleased to have sustained our profitability and delivered 100 percent revenue growth for the fourth year in a row.

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Message from the CEO
1999–A Year of Record Growth and Continued Success

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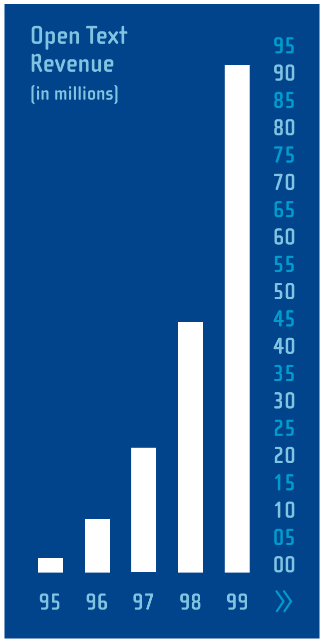
We are very happy to report that we accomplished everything we set out to do. Fiscal Year 1999 proved to be one of phenomenal success and dramatic growth for Open Text Corporation. Among our many achievements, we are very pleased to have enhanced our profitability and delivered 100 percent revenue growth for the fourth year in a row.

Sustained Profitability and Dramatic Growth

Open Text's earning curve demonstrates a steady upward trend, marking our second year of profitability after one-time charges for acquisitions. The Company's total revenue for Fiscal Year 1999 was U.S. $92.5 million, up 104 percent from the previous year's $45.3 million. With the final quarter of Fiscal Year 1999, we have now enjoyed fourteen quarters of consecutive record growth. Total revenues for the last quarter were $29.4 million, up 17 percent from the previous quarter and net income was $14 million, compared to $2.3 million for the same period last year.

In Fiscal Year 1999, we welcomed John Shackleton to the Company as President. A former executive with Platinum, Oracle and Sybase corporations, Mr. Shackleton has helped to organize Open Text for future growth both through internal operations and acquisitions.

During this past year, Open Text ranked third for growth in the 1999 Software 500 sponsored by *Software Magazine*. The Company also placed 10th in the Branham200, a listing of the top 100 independent Canadian software developers, and ranked 32nd out of 100 in terms of our five year growth in last year's Profit 100 listing, produced by *Profit Magazine*.



People are innovators

Nortel Networks uses Open Text to Bring People Together

As one of the world's telecommunications leaders, Nortel Networks believed it was vital to consolidate the company's knowledge bases in order to give people across the enterprise easy access to information. Competitive advantage was at stake.

Nortel chose Livelink to support what is now the worlds largest private intranet. Deployed across Nortel worldwide in divisions such as Wireless Networks, Advanced Technology, and Employee Service, Livelink is serving as a competitive intelligence repository, a center for best business practices, a collaborative work environment for dispersed workgroups, and as a tool for automating workflows and business processes. Livelink benefits surpassed the company's expectations for better knowledge access and sharing to include improvements in product time-to-market, ISO accreditation, streamlined business processes, and better and faster business decisions. By giving customers access to a secure area within Livelink, Nortel is also increasing customer satisfaction.

"Using Livelink has enabled us to implement a successful knowledge management strategy that has had a significant impact on our business—from improving knowledge flow between departments to getting products to market much quicker—by as much as 30 percent." Tony Roberts, European Knowledge Systems Prime, Nortel Networks.

Commenting at the launch of the Corporate Employee Services Knowledge Repository, Keith Powell, Chief Information Officer, Nortel Networks, said the application "represented an intuitively designed gateway to all Corporate Services information, services, documents, and processes."

Automated Records Management with Livelink

Even though TRANSLINK, British Columbia's regional transportation authority, is in the transportation business, it is, by default, also in the knowledge management business.

Livelink is the backbone of TRANSLINK's Records Management System, capturing and indexing every type of corporate record—from e-mail, word documents and spreadsheets to audio and video files—and managing their entire lifecycle—from creation to disposition, in compliance with regulations governing transportation services. Any one of TRANSLINK's over 4,000 employees across multiple subsidiaries can now access, share and collaborate using these "records" from the intranet. At the end of a file's predefined lifecycle, a Livelink workflow ushers it through a review process to decide on its deletion.

"We now have a standard and enforceable process by which the entire organization maintains all communications and final work. We're working efficiently together, improving our responsiveness to customers, reducing business risks and protecting our intellectual capital." Noella Bordian, Corporate Records Manager, TRANSLINK.

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Increased Market Penetration

Today, Open Text is recognized as a market leader in the area of knowledge management. A mid-year report by International Data Corporation (IDC) noted that Open Text accounted for 42 percent of the revenue generated in enterprise-level document management spending. This builds on a previous IDC report which named Open Text the market share leader measured by number of installed seats, or users, with almost 43 percent market share and a 48 percent share of new user growth.

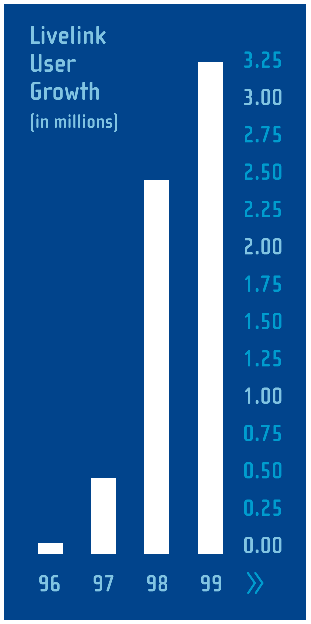
Open Text was first to market with a ready-to-deploy, fully integrated business solution for Web-based intranet and extranet environments. From complex online transactions to simple business processes, Livelink®, our flagship product, delivers true dynamic collaboration between individuals, organizations, and large trading communities. As Global 2000 organizations embrace Web-based e-business and knowledge management solutions, Open Text has emerged as the dominant vendor.

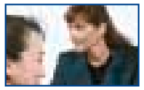
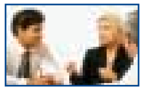
> "Many products became Web-enabled in 1998, but Livelink 8.0 from Open Text was designed for the Web from the start. It brings document management, workflow, search, project management and collaboration (a very real knowledge-sharing technology) to corporate intranets. The system is easy to use and it's cross-platform on the client side. With no software to install, it quickly scales up at even the largest organizations."
>
> *Imaging and Document Solutions Magazine*

Livelink continues to gain widespread acceptance in the market, with successful installations in the high-tech manufacturing, financial services, pharmaceutical and telecommunications sectors. Organizations as diverse as Nortel Networks, Lockheed Martin and CARE Canada rely on Livelink to address a wide array of business applications, from including suppliers and partners with extranets to managing regulatory compliance, providing call center support and delivering relief to people in developing and war-torn societies. The results? Shortened project cycles. Increased competitive advantage. Improved profitability. Reduced costs. And significant rates of return on investment. TransCanada PipeLines Ltd. realized a cost savings of 6 million dollars using Livelink to achieve regulatory compliance with the Federal Energy Regulatory Commission.

Our technological achievements have been acknowledged by the industry. In Fiscal Year 1999, Livelink won the much-coveted Crossroads '99 A-List Award and was named a Product of the Year by *Imaging and Document Solutions Magazine*. In both cases, Livelink was recognized for its ability to provide an industry-leading integrated solution for the enterprise—supporting complete business processes, from the supply chain through the back office, all the way to customer interaction.

Open Text customer CARE Canada won two awards for their use of Livelink in improving lives and conditions in developing regions and war-torn societies—the SCOAP Award of Excellence in the category of Knowledge Innovation Management and the Computerworld Smithsonian Laureate Award.



Doing what it takes

Smart organizations realize the value of innovation. At Open Text, we help to
create business environments that foster innovation—at the individual level and across the enterprise. We hyperlink
across diverse locations and platforms. With our intranet solutions, information is easily organized and managed—giving businesses the time and
From anywhere in the world, people can connect with the right expertise and information, to get their jobs done. Our extranet solutions extend
business processes to include customers, partners and suppliers.
With our personalized portals, people gain greater insight, develop better
ideas and accelerate innovation at every level of the enterprise.

Glaxo Uses Open Text to Leverage Knowledge

Glaxo Wellcome Inc., a research-based pharmaceutical company, supports its knowledge management initiative by using Livelink—with successful results: quantifiable productivity gains as well as more difficult to-quantify yet high value returns.

To facilitate knowledge sharing, Glaxo Wellcome instituted a sales and marketing knowledge exchange system. Designed to promote communication, this system encourages employees company-wide to share ideas, past project information and best practices. The tools behind the system come from Livelink. People are using it for information access, online team collaboration and to automate business workflows.

“With Livelink we have been able to create a collaborative workgroup area on the Web, where our geographically dispersed teams work together on projects, develop common goals and take advantage of valuable discussion areas. We are also using Livelink as the engine to drive our workflow applications and have already realized a 50 percent savings in process time.” Joe Felix, Director of Commercial Information Technology, Glaxo Wellcome.

ORGANIZATIONS SO THAT THEY CAN COMMUNICATE

SPACE TO INNOVATE.

Lockheed Martin Takes Flight with Livelink

Lockheed Martin Tactical Aircraft Systems is bringing its collaboration and request for proposal processes up to par with the company's state-of-the-art airplanes such as the F-16 and the Joint Strike Fighter (JSF).

Building complex combat airplanes requires collaboration among hundreds of people across multiple organizations and hundreds of requests for proposals from suppliers. Managing the process using hardcopy was no longer feasible.

Deployed for the JSF program, Livelink is now the hub of Lockheed Martin's secure suppliers extranet, enabling the company to put its requirements online, allowing suppliers to access and bid on them, and all the while, managing the documents and workflow in the background.

"Livelink has the out-of-the-box functionality we needed for security and collaboration...and so far, its deployment for the JSF program has provided big paybacks in terms of time and cost savings." Richard Parker, Data Manager, Lockheed Martin Tactical Aircraft Systems.

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Expanding Our Global Presence

Today, Open Text has a worldwide installed base of over 3 million users in 3,600 organizations spread across 31 countries, in 12 languages. During the past year, we have focused on strengthening our presence in the EMEA (Europe, Middle East, and Africa) market. With a combination of acquisition and organic growth, EMEA revenue has increased significantly in Fiscal Year 1999. We have made tremendous progress over the last twelve months in establishing a very strong market presence, with offices located in the UK, Germany, France, Holland, Switzerland and the Middle East. Thanks to these concentrated efforts, Open Text is now seen as a leading organization in all major EMEA markets.

> "In the wake of the KM revolution, organizations who deploy KM systems are capturing and managing information better than ever before, but they're also creating and distributing more information than ever. Content aggregation—the ability to intelligently sift out what information each of us, as individual knowledge workers, really needs to excel and innovate—is the next KM milestone...Open Text is well on its way to reaching that target."
>
> *Ian Campbell, International Data Corporation*

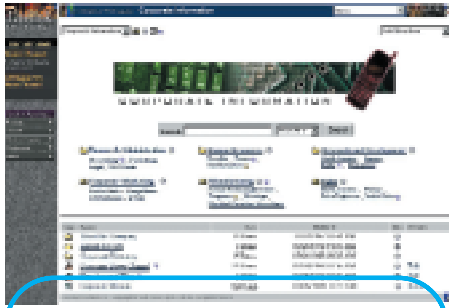
Forming strong technology and business alliances also helps Open Text to increase brand recognition and expand our customer base. We continue to grow strategic relationships with industry leaders like Microsoft®, Adobe®, Hewlett-Packard®, Netscape® and others. We also support over 80 Open Text distributors, value-added resellers, system integrators, solution providers and development partners with our award-winning Affinity Partner Program. This program is designed to build strong relationships with organizations that incorporate Open Text technology into their solutions. Having Affinity Partners in a broad range of industries extends the Company's reach by providing exposure to specific vertical markets, a shared customer base and bringing domain expertise into our product development initiatives.

Effective Solutions

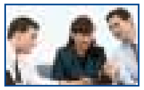
Open Text is committed to helping organizations succeed through innovation. We create the conditions of success for our customers in three ways. First, by developing tools and products internally. Second, by acquiring companies and technologies that will strengthen our family of solutions. Finally, our integration of internal development initiatives with acquired products allows us to deliver new products to our customers quickly and effectively.

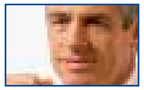
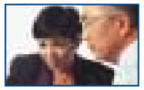
Internally, we have created a longstanding community of intelligence and expertise. We are extremely grateful to our loyal and talented staff for helping us reach significant milestones. And despite our incredible rate of growth, we have maintained the entrepreneurial and innovative spirit that founded the company.

The acquisition of LAVA Systems, during Fiscal Year 1999, provided us with an



Livelink is a comprehensive collaborative knowledge management solution for Web-based intranets, extranets and corporate portal applications. Through its fully integrated services—document management, project collaboration, search, workflow and group scheduling—Livelink provides organizations with the ability to share information, develop ideas and realize significant competitive advantage.

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Better meet the challenge

Fiscal Year 1999 proved to be another year of financial success and dramatic

growth for Open Text. We grew organically and through acquisition, sustaining our profitability and delivering

Moving forward, we continue to develop strong relationships with industry leaders like Microsoft, Adobe, Oracle, Hewlett-Packard,

deliver the most comprehensive and accessible solutions for our customers and partners. Our mandate is to improve professional

people can do better things, and do things better.

Sprint—Improved Efficiencies and Information Sharing

Sprint has deployed Livelink to create a Web-based repository to store customer circuit data in its Network Operating Center (NOC), allowing the company to move from a paper-based system to an electronic document management solution. Livelink is also being used as a Web-based repository for storing accounts payable invoices and managing Sprint employee expense report receipts linked to an intranet-based reimbursement system.

“Livelink's out-of-the-box functionality has allowed us to easily deploy intranet applications in a matter of days,” said Keith Kreeger, Intranet Team Manager, Sprint Web Enterprise & Business Services. “Early indications show Livelink will bring an immediate return on investment, improved efficiencies and better information sharing capabilities to our distributed workforce.”

100 PERCENT REVENUE GROWTH FOR THE FOURTH YEAR IN A ROW.
SAP, CANON, UNISYS AND NETSCAPE, SO THAT WE CAN
LIVES—SO THAT

CARE Tackles World Crises with Livelink-Based System

As a member of CARE International, one of the world's largest independent relief and development federations, CARE Canada's mission is to improve the provision of security and well-being for the poor in developing regions and war-torn societies. The Information to Knowledge (i2K) Group is CARE International's information-technology arm, providing IT solutions to 60 country offices, partner agencies and 10 federation members on every continent. CARE's global efforts make it imperative that knowledge be quickly and easily accessible.

CARE's LINK system is an integrated solution with Livelink's collaborative knowledge management at the core. LINK manages 1,400 MB of accumulated information that is specifically tailored to support non-profit organizations and provides more than 380 inter-organizational, global project teams with access to information and a broad range of knowledge management, reporting and data analysis tools directly via the Web. Team members can easily pinpoint the information they need, any time and anywhere, and perform highly sophisticated analyses, such as emergency needs versus available global resources.

To date, LINK has been put to the test in the aftermath of Hurricane Mitch and during the Kosovo crisis. At the onset of each crisis, i2K quickly deployed a Livelink-based intranet/extranet to facilitate collaboration and communication among multiple organizations and hundreds of relief personnel. Across organizations, team members were able to share critical information such as the region's aid requirements, aid pledges, on-going project initiatives and area maps.

"Knowledge is at the heart of every CARE effort. Our ability to utilize knowledge gained in past projects is crucial to making effective decisions in crisis situations and in implementing critical services or programs in a shorter time frame or at a lower cost." Gerard van der Burg, Managing Director of the i2K Group, CARE Canada.

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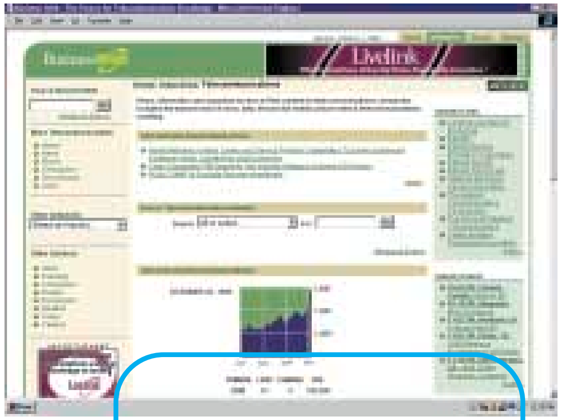
exciting opportunity to combine the ubiquity of enterprise business systems with the power of Livelink. By integrating core LAVA technology with Livelink, we have created a single point of access for Livelink users to get information from packaged or legacy systems, and incorporate this into Livelink's work processes and knowledge library.

This past year, we also focused our energy on integrating other technologies from past acquisitions with our flagship product, Livelink. We are extremely proud of our success in fully integrating BASIS®, a document collections management system, OnTime®, a group calendaring and scheduling application, and Techlib™, an automated library cataloging solution, significantly enhancing and broadening Livelink's functionality.

Our three-pronged approach to creating effective business solutions helps us to maintain our position as a market leader. Where others continue to focus their energy on managing information or documents, we believe that the best way to serve all of our stakeholders is to develop solutions that address the larger and evolving needs of our customers. Instead of being driven by technology, we are focused on creating success.

The surest path to success is to develop new ways of thinking, new business models, and the creation of new products and services. But with the ever-increasing pace of global competition, simply developing new ideas



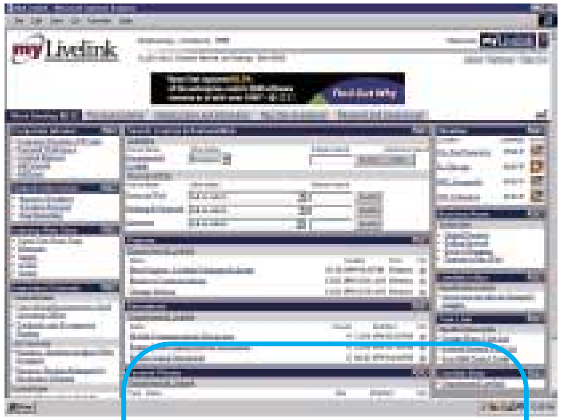
BusinessWeb delivers precision access to industry-specific information from qualified Web and published sources, enabling users to access industry-focused top news stories, financial headlines, stock quotes, and more. As a leading business content service, BusinessWeb maximizes the effectiveness of the Web by focusing on relevant information and eliminating information overload.

is not enough. New ideas have to be implemented before a competitor can win the 'race to market.' In short, companies that want to succeed must accelerate innovation throughout their organization. We call it HyperInnovation™ and it is already a major factor in the success of Global 2000 companies and organizations around the world.

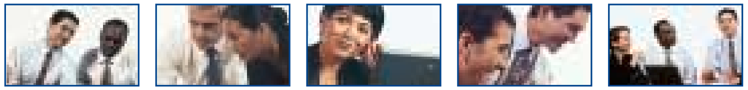
Driven By Vision

During this past year, we began our next major initiative, the launch of myLivelink™, our Collaborative Knowledge Portal™ solution. As a corporate version of the popular consumer portals, myLivelink represents the next major evolution in our product line and business model.

As intranets, extranets and the Internet become increasingly important and common business tools, finding the right information when you need it has become an almost impossible task. myLivelink ensures that people connect with the right information, resources and expertise they need. Using Livelink as its engine, myLivelink gathers information from internal and external sources and delivers it directly to the desktop—giving users personalized access to industry data, enterprise business systems, consumer links, news feeds, and more.



myLivelink is the leading collaborative knowledge portal solution for business. It connects users to information from enterprise business systems, the Internet, intranets, extranets, and more—all from within a single Web interface. Using myLivelink, people can gather information from a variety of sources, collaborate on projects, and participate in discussions across the globe—without even leaving their desktop.



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Motorola's Livelink-Based Portal

Motorola is a global leader in providing integrated communications solutions and embedded electronic solutions.

With approximately 120,000 employees in over 400 cities worldwide, databases disbursed throughout the company and multiple information management methods, Motorola faced challenges in communication, collaboration and knowledge management.

As a centralized information base, accessible from anywhere in the world, Motorola's Livelink-based COMPASS is providing the entire enterprise with a premier collaboration and Knowledge Management system and is well on its way to becoming the company's intranet/Internet portal.

"Developing and deploying a system—the size and magnitude of COMPASS—across tens of thousands of users is not an easy feat. Livelink provided 70 percent of the capability we needed out-of-the-box—that's significantly more than any solution in the market."
Philip Stockwell, Program Manager of Internet Collaboration Technologies, Motorola.

Siemens—Improving Customer Response Time

Siemens is one of the largest industrial organizations in the world with a wide range of know-how in the business areas of information and communications, public transportation, electronic business solutions and numerous others.

Within Siemens, a number of departments and divisions are already using Livelink to accomplish their specific business goals. For example, at the Automation and Drives (A&D) division, Livelink is improving customer response time by serving as the nerve center of the division's 24-hour, globally distributed, hotline service. Customers and worldwide support staff now have instant access to answers they need. Information and Communication Networks (ICN), which develops products for speech, data and mobile communications to more than 160 countries, and Siemens Business Services (SBS), which provides e-business consulting, solutions and services are using Livelink to accelerate business processes and leverage corporate knowledge. Being one of the biggest European Open Text partners, Siemens Business Services has already designed and implemented national and international projects for large companies in different industry sectors.

"Due to our past experience with Livelink as an integrated intranet solution, we decided to use Livelink as a corporate knowledge platform for our own organization. We did so for two reasons, firstly because Livelink integrated easily into our existing intranet infrastructure and secondly, because Livelink provides secure, global access to the system—all from the user's desktop," says Klaus G. Hommer, Senior Vice President Corporate Marketing & Communications, Siemens Business Services.

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And myLivelink fully leverages all of Livelink's powerful collaborative knowledge management functionality—giving individuals access to business knowledge and virtual team collaboration. Combined with Livelink and BusinessWeb, Open Text's Web content services, myLivelink delivers high-quality, industry-specific information, focusing corporate knowledge by combining intranets, extranets and the Internet into a single point of access for business-critical applications and information.

Powered By Innovation

Open Text will continue to support our customers, improve our existing products and expand into new markets. We will also execute on our plan to strengthen our technology base and product offerings through the acquisition of businesses with complementary technologies. Our world-class services organization—which includes training, customer support, and professional services—is constantly evolving to better serve our customers. Along with broadening the width and scope of our family of products and delivering complete enterprise solutions, we are poised to deliver greater value to our partners, customers and stakeholders.

"A sound KM (Knowledge Management) strategy often incorporates robust document repository services. Other essential and evolving elements of KM, such as workflow, virtual collaboration, and enterprise portal facilities, complete the toolset for corporations looking to improve business processes across the enterprise and across partner organizations."

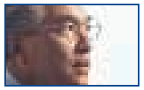
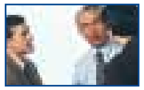
David Yockelson, Meta Group

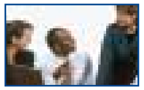
As business models shift, our history of working with the Web ideally positions us to capitalize on the opportunities presented by the growth of e-business and online communities. The next logical stage in the development of collaborative knowledge management, myLivelink, will take Open Text into new markets and help customers to do business in better and more efficient ways. By developing, acquiring and integrating effective solutions into the Open Text family of products, we not only guarantee our future, but the success of all of our stakeholders.

We thank you, our shareholders, for your continued support throughout this period of tremendous growth.

Sincerely,

Tom Jenkins
Chief Executive Officer

people doing

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better business

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Open Text has pioneered the development of systems and solutions that enable organizations to innovate at a consistently faster rate. We call it HyperInnovation™ and it continues to be a major factor in the success of Global 2000 companies and leading organizations around the world.

2

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 within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance or the outcome of litigation (often, but not always, using words or phrases such as "believes", "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate" or "intends" or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken or achieved) are not statements of historical fact and may be "forward-looking statements". Such 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 business or its 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, year 2000 issues, increases in expenses, unproven acceptance of the Company's products and services, risks involving the management of growth, risks of acquisitions, including risks involved in integrating recent and future acquisitions and acquired products into the Company's business, competition and new entrants in the market for the Company's products and services, product development risks, risks of technological change, litigation risk and liquidity and capital resources. Litigation and arbitration proceedings are inherently uncertain and can be affected by newly discovered evidence or documents, the assertion of new claims or legal theories and other factors that make it difficult to predict the outcome of litigation with certainty. Additional risk uncertainties are described in connection with certain of the forward-looking statements under "Overview". Forward-looking statements are based on management's current plans, estimates, opinions and projections, and the Company assumes no obligation to update forward-looking statements if assumptions of these plans, estimates, opinions or projections should change. Certain of the forward-looking statements contained in this report are identified with cross-references to this section.

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 characterized

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by intense competition. 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, compete effectively with a large number of technologically sophisticated and well financed companies, and attract, retain and motivate highly qualified personnel, manage rapid growth and integrate the personnel, technologies and operations of acquired businesses. There can be no assurance that the Company will successfully address these challenges. The Company has incurred losses in four of its last five fiscal years and as at June 30, 1999, had an accumulated deficit in shareholders' equity of $46 million. The Company attained profitability in fiscal 1999.

On December 29, 1998 the Company acquired certain assets of Lava for cash of $2.3 million. The acquisition was accounted for by the purchase method of accounting. The Company has charged to expense an amount of $3.4 million related to in-process research and development. This amount represents the present value of Lava technology acquired that required completion and integration into the Company's Livelink products. The most significant of these products is Lava Claims Enabler, a completely new product under design at Lava, was approximately 74% complete at the date of acquisition. The Company plans to re-engineer this product as in its current form, Lava Claims Enabler does not have the scalability, features and web enablement that are required to be a saleable product in the current marketplace. Other products in process at the date of acquisition were Lava Enabler, Lava Intellidocs and Lava PME, all at various stages of completion but requiring web enablement and migration to current database technology. The Company continues to assess the capability of these existing products and currently estimates that future versions will become available beginning in calendar year 1999. Should the Company encounter issues in the design of the products, such as scalability, that require further product redesign, the release of future products could be delayed significantly. The Company estimates a further $1 million will be required to complete the existing products and estimates a completion date at the end of calendar 1999.

The valuation of the in-process research and development was prepared using the stage of completion model whereby future net operating cash flows from products currently being developed are discounted to present values using a risk-adjusted discount rate after appropriate allocation to existing core products. In the valuation model, the Company contemplated sales of $750,000 in fiscal 1999, $1.5 million in 2000, $2 million in 2001. The Lava Claims Enabler product requires a significant amount of integration at each installation and accordingly professional service revenue is contemplated to be $1.9 million in fiscal 1999, $3.8 million in 2000, $5 million in 2001. Product margins and professional services margins and operating costs used in the valuation model were similar to those the Company currently experiences.

Included in tangible net liabilities is an amount of $4.5 million for direct acquisition costs, involuntary terminations, costs to exit certain activities and certain contingencies. The liabilities included $765,000 for direct acquisition costs, $800,000 for involuntary terminations of management and certain development, sales and administrative staff, $1.1 million for lease terminations, relocation expenses and other contract losses and $1.9 million for potential claims of former employees of Lava for terminations occurring prior to the acquisition date. These potential claims has been recorded based on estimates which management believes are reasonable, however, the amount may change as management obtains more information about the outcome of various claim. Should further information indicate that the amount is different than the estimate made, any adjustments to the amount determined prior to December 29, 1999 will adjust the goodwill recorded as of the date of the acquisition. It is expected that these claims will be settled by the end of fiscal 2000. During the year ended June 30, 1999, the company paid and charged against the liability $800,000 for involuntary terminations, $1.1 million for lease terminations, relocation expense and other contract losses and $600,000 in claims from former employees.

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. The operations of Information Dimensions have been included in the financial statements from the purchase date using the purchase method of accounting.

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.

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 $569,000. This amount was recorded as an asset and is being amortized on a straight-line basis over four years. The fair market value of core technology was determined to be $3.4 million. This amount was recorded as an asset and is being amortized on a straight-line basis over seven years.

As a result of the valuation, the fair market value of the in-process research and development costs was determined to be $5.5 million. In accordance with applicable accounting rules, this amount was expensed upon acquisition. The excess of the purchase price over the fair market value of identifiable assets acquired and liabilities assumed has been recorded as goodwill in the amount of $9.7 million which will be amortized over ten years.

Acquired in-process research and development costs represented the present value of Information Dimensions technology acquired that required completion. The most significant of these products is CIC/Techlib, a new product under design at Information Dimension and was approximately 80% complete at the date of acquisition. The Company plans to re-engineer this product as in its current form, it does not have the scalability, features and web enablement that are required to be a saleable product in the current marketplace. The Company completed this work in the middle of fiscal year 1999. Actual costs to complete the product were not materially different than estimates made.

The valuation of the in-process research and development was prepared using the stage of completion model whereby future net operating cash flows from products currently being developed are discounted to present values using a risk-adjusted discount rate of 30% after appropriate allocation to existing core products. In the valuation model, the Company contemplated sales of $11 million in fiscal 2000, $39 million in 2001, $25 million in 2002 and $12 million in 2003. Product margins and operating costs used in the valuation model were similar to those the Company currently experiences.

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately $6.7 million, in a transaction which has been accounted for under the purchase method. The purchase price was 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.

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As of June 30, 1998, costs under the Information Dimensions and OnTime acquisitions for involuntary termination and relocation were $1.6 million. The Company made charges of $1.6 million to reserves in the year ended June 30, 1999 and no reserve balance exists at June 30, 1999.

During fiscal 1997, the Company acquired a minority equity interest in About.com (formerly MiningCo.com Inc.) which presently represents 885,201 shares of common stock. In March 1999, About.com completed an initial public offering of common stock and its common stock was listed on the Nasdaq Stock Market's National Market. At June 30, 1999, the closing price for About.com's common stock as reported by Nasdaq was $51.875 per share. Beginning in the quarter ended March 31, 1999, the Company accounted for its interest in About.com as securities available for sale, and will carry the investment on its balance sheet as a current asset value at the trading value of the securities on the balance sheet date. Unrealized gains of $32 million after providing for taxes are not included in net income, but are included in shareholders' equity as part of comprehensive income. The Company's balance sheet also includes a current liability for the estimated future tax payable if the securities were sold at the value reflected on the balance sheet.

Securities of Internet commerce companies such as About.com have been highly volatile, and the amount the Company will realize on this investment is uncertain. The Company has agreed not to offer or sell it's shares in About.com until September 20, 1999 without the consent of the managing underwriter of the initial public offering.

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.

The Company's financial statements are prepared in accordance with generally accepted accounting principles in the United States ("US GAAP") and are presented in United States dollars unless otherwise indicated. All references in this report to financial information concerning the Company refer to such information in accordance with US GAAP and all dollar amounts in this report are in United States dollars.

Results of Operations

During the year ended June 30, 1999, the Company had net income of $20.2 million, or $0.85 per share, diluted. 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, 1999	1998	1997
Revenues:			
License	58.0 %	65.4 %	60.6 %
Service	42.0	34.6	39.4
Total revenues	100.0	100.0	100.0
Cost of revenues:			
License	2.0	3.3	3.7
Service	19.4	16.7	29.3
Total cost of revenues	21.4	20.0	33.0
Gross profit	78.6	80.0	67.0
Operating expenses:			
Research and development	12.3	17.4	29.2
Sales and marketing	39.4	48.4	73.5
General and administrative	6.4	10.3	20.5
Depreciation	4.5	5.2	7.4
Amortization of acquired intangible assets	2.4	1.4	-
Acquired in-process research and development	3.7	17.6	-
Restructuring	0.4	-	2.9
Total operating expenses	69.1	100.3	133.5
Income (loss) from operations	9.5	(20.3)	(66.5)
Other income (expense)	0.5	0.6	0.3
Interest income	2.5	3.9	8.6
Interest expense	-	(0.3)	(0.7)
Income (loss) for the year before income taxes	12.5	(16.1)	(58.3)
Income tax recovery	9.3	2.2	-
Net income (loss) for the year	**21.8 %**	**(13.9) %**	**(58.3) %**

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Fiscal 1999 Compared with Fiscal 1998

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 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 104% from $45.3 million in the year ended June 30, 1998 to $92.5 million in the year ended June 30, 1999. Revenues from licenses increased 81% from $29.6 million in the year ended June 30, 1998 to $53.7 million in the year ended June 30, 1999. The increase in license revenues was due primarily to the growth of Livelink sales and acquisitions made in June 1998. Service revenues increased 148% from $15.7 million in the year ended June 30, 1998 to $38.9 million in the year ended June 30, 1999. The increase in service revenues was primarily attributable to an increase in consulting and integration services provided to new license customers and the increase in support contracts provided to new and existing customers as well as customers from acquisitions.

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 $1.5 million in the year ended June 30, 1998 to $1.9 million in the year ended June 30, 1999, decreasing from 5% to 3% of license revenue. The decrease was primarily due to further efficiencies in production and shipping of license products.

Cost of service revenues consists primarily of the costs of integration, technical support personnel, product support and training. Cost of service revenues increased 138% from $7.6 million in the year ended June 30, 1998 to $18 million in the year ended June 30, 1999, primarily due to additional personnel required to support the expanded activities of the integration and consulting departments. Cost of service revenues as a percentage of service revenues decreased from 48% in the year ended June 30, 1998 to 46% in the year ended June 30, 1999. The Company believes that it must continue to enhance its integration and consulting 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 44% from $7.9 million in the year ended June 30, 1998 to $11.4 million in the year ended June 30, 1999 and decreased as a percentage of total revenues from 17% in the year ended June 30, 1998 to 12% in the year ended June 30, 1999. 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 66% from $21.9 million in the year ended June 30, 1998 to $36.4 million in the year ended June 30, 1999 but decreased as a percentage of total revenues from 48% in the year ended June 30, 1998 to 40% in the year ended June 30, 1999. 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 increased 27% from $4.6 million in the year ended June 30, 1998 to $5.9 million in the year ended June 30, 1999 and decreased as a percentage of total revenues from 10% in the year ended June 30, 1998 to 6% in the year ended June 30, 1999. The Company believes that the level of general and administrative expenses in future periods will increase in absolute dollars as the Company will add more administrative staff and install new management information systems and processes. See "Forward-looking Statements".

Depreciation expenses. Depreciation expense was $2.4 million in the year ended June 30, 1998 and increased to $4.2 million in the year ended June 30, 1999 as a result of increased capital expenditures during the year and increased capital equipment acquired through acquisitions.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was $618,000 for the year ended June 30, 1998 and $2.2 million for the year ended June 30, 1999. Included in amortization of acquired intangible assets is amortization of core technology and goodwill on the acquisition of OnTime, Information Dimensions and Lava.

Acquired in-process research and development and write down of acquired intangible assets. Acquired in-process research and development was $7.9 million for the year ended June 30, 1998 and $3.4 million for the year ended June 30, 1999. These charges are attributable to the cost of acquired in-process research and development expenses as part of the Information Dimensions and OnTime acquisitions in fiscal 1998 and the Lava acquisition in fiscal 1999 that are expensed under GAAP. See Overview.

Other income. Other income was $280,000 for the year ended June 30, 1998 and $427,000 for the year ended June 30, 1999. Other income is comprised mainly of gains and losses on the disposal of investments and fixed assets.

Interest. Interest income was $1.7 million in the year ended June 30, 1998 compared to $2.3 million in the year ended June 30, 1999. The increase was due to higher average cash balances held by the Company during the year. See "Liquidity and Capital Resources".

Income taxes. A deferred tax asset of $20.4 million and $20.2 million existed as of June 30, 1998 and June 30, 1999 respectively. In fiscal year 1999 the Company released $9.1 million of its valuation allowance as a result of its examination of realizability of gross deferred tax amounts and recorded the amount as income. The remaining change in valuation was primarily allocated to goodwill. In accordance with US GAAP, a valuation allowance of $7.7 million continues to be recorded against the deferred tax asset by the Company as reasonable assurance on the use of the remaining portion of the tax assets has not been obtained. The valuation allowance at June 30, 1998 was $19.4 million. The Company continues to evaluate its taxable position quarterly and considers factors such as estimated taxable income, the history of losses for tax purposes and the growth of the Company, among others.

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Fiscal 1998 Compared with Fiscal 1997

Revenues. Total revenue 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. Service revenues increased 76% 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 $1.5 million in the year ended June 30, 1998, decreasing from 3.7% to 3.3% 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 service revenues decreased from 74% in the year ended June 30, 1997 to 48% 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 19.7% 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".

Depreciation expenses. Depreciation 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.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was $618,000 in the year ended June 30, 1998 versus nil for the year ended June 30, 1997. Included in amortization of acquired intangible assets is the amortization of core technology and goodwill on the acquisitions of OnTime and Information Dimensions.

Acquired in-process research and development and write down of acquired intangible assets. During fiscal 1998, the Company acquired certain assets and liabilities of Information Dimensions and OnTime. For both acquisitions, an aggregate of $5.5 million was charged to expense for acquired in-process research and development at the dates of the respective acquisitions in accordance with GAAP. The Company subsequently revised the software and core technology valuation for OnTime resulting in an additional write down of $2.4 million and this amount has been included in 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 About.com 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 $20.4 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 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. 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 result in cash payments to the Company. 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.

Depreciation expenses. Amortization expense was $3.2 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 in-process 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 About.com 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. See "Business—Risk Factors—Potential Fluctuations in Quarterly Operating Results".

Liquidity and Capital Resources

At June 30, 1999, the Company had current assets of $237 million, $45.9 million of which are available for sale, and current liabilities of $38 million. The Company has a Cdn $10 million (USD$6.79 million) line of credit with a Canadian chartered bank, under which no borrowings were outstanding at June 30, 1999. The line of credit bears interest at the lender's prime rate plus 0.5% and is secured by all of the Company's assets, including an assignment of accounts receivable.

Cash provided by operations during the year ended June 30, 1999 was $2.8 million. Acquisitions of furniture and equipment was $4.7 million. The purchase of Lava Systems resulted in a cash outflow of $5.8 million.

To date, license and service revenues have been insufficient to satisfy the Company's cash requirements, as the Company continues to search for businesses to acquire. The Company has financed its cash needs primarily through issuance of the Company's Common Shares. On May 3, 1999, the Company completed the issuance of 3.0 million Special

Warrants, convertible into Common Shares for no additional consideration, for net proceeds of $97 million. Each Special Warrant entitles the holder, upon exercise thereof in accordance with its terms, to acquire one Common Share without payment of additional consideration therefore at any time on or after June 14, 1999 and up to and including 5:00 p.m. (E.S.T.) 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, Alberta and Québec Securities Commissions shall have issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares (the “Underlying Shares”) issuable on the conversion of the Special Warrants; (b) and May 4, 2000.

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.

During fiscal 1997, the Company advanced approximately $4.0 million to About.com, 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 About.com common stock.

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.

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, 2000. 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. See “Business — Risk Factors — Liquidity and Capital Resources”.

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 37% of the Company’s revenues in 1999 and 32% in 1998 has been earned in currencies other than the US dollar. Approximately 52% of the Company’s expenses in 1999 and 30% in 1998 have been spent in currencies other than US dollar. 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 and has retained outside consultants to assist it in this compliance review. The focus of the Company's compliance efforts includes all of the Company's present products, systems and equipment. The Company is not testing any past products. The review and testing of present products was completed in May 1999. The Company also reviewed its internal systems and equipment and this review was completed in June 1999. Any remediation necessary on these internal systems is expected to be complete by the end of September 1999, however the Company has not identified any specific critical issues. It is estimated that the compliance costs will not exceed $500,000. See "Forward-looking Statements".

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. See "Forward-looking Statements".

Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

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Management's Report

Management is responsible for all the information and representations contained in the consolidated financial statements and other sections of this FORM 10-K. 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, and that the other information in this FORM 10-K is consistent with those statements. 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 LLP, 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 LLP 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.

/s/ P Thomas Jenkins	/s/ Thomas J Hearne
Chief Executive Officer	Chief Financial Officer
August 12, 1999	August 12, 1999

Auditor's 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, 1999 and 1998 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended June 30, 1999, 1998 and 1997. 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 1999 and 1998 and the results of its operations and cash flows for the years ended June 30, 1999, 1998 and 1997 in accordance with accounting principles generally accepted in the United States.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Kitchener, Canada
August 12, 1999

Consolidated Balance Sheets

(In thousands of US Dollars, except share data)

	Year Ended June 30, 1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 140,256	$ 40,390
Available for sale securities (Note 3)	45,920	-
Accounts receivable trade, net of allowance for doubtful accounts of $1,658 as at June 30, 1999 and $1,635 as at June 30, 1998	31,632	22,924
Deferred tax assets (Note 11)	4,000	-
Prepaid expenses and other assets	7,736	2,834
Total current assets	229,544	66,148
Furniture and equipment (Note 4)	9,988	8,710
Goodwill, net of accumulated amortization of $1,946 at June 30, 1999 and $442 at June 30, 1998	14,388	15,461
Other assets	10,854	10,263
	$ 264,774	$ 100,582
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade and accrued liabilities (Note 6)	$ 13,995	$ 17,396
Deferred revenues	9,802	10,112
Deferred tax liability (Note 11)	8,152	-
Total current liabilities	31,949	27,508
Commitments and contingencies (Notes 9 and 17)		
Shareholders' equity:		
Share capital (Note 7)		
21,280,463 and 18,087,069 Common Shares issued and outstanding at June 30, 1999 and June 30, 1998 respectively	150,252	105,108
3,000,000 and 1,750,000 Special Warrants issued and outstanding at June 30, 1999 and June 30, 1998 respectively	97,420	34,800
Accumulated other comprehensive income and other capital		
Unrealized gain on available for sale securities (net of tax)	31,699	-
Cumulative translation adjustment	(735)	(944)
Other	64	155
Accumulated deficit	(45,875)	(66,045)
Total shareholders' equity	232,825	73,074
	$ 264,774	$ 100,582

*See accompanying notes to consolidated financial statements

Consolidated Statement of Operations

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

	Year Ended June 30, 1999	1998	1997
Revenues:			
License	$ 53,657	$ 29,644	$ 13,736
Service	38,880	15,656	8,912
Total revenues	92,537	45,300	22,648
Cost of revenues:			
License	1,819	1,500	848
Service	18,005	7,554	6,631
Total cost of revenues	19,824	9,054	7,479
	72,713	36,246	15,169
Operating expenses:			
Research and development	11,373	7,906	6,612
Sales and marketing	36,441	21,906	16,638
General and administrative	5,921	4,645	4,648
Depreciation	4,225	2,374	1,689
Amortization of acquired intangible assets	2,194	618	-
Acquired in-process research and development and write down of intangible assets	3,419	7,978	-
Restructuring costs	329	-	650
Total operating expenses	63,902	45,427	30,237
Income (loss) from operations	8,811	(9,181)	(15,068)
Other income (Note 10)	427	280	57
Interest income	2,342	1,745	1,944
Interest expense	(47)	(125)	(148)
Income (loss) before income taxes	11,533	(7,281)	(13,215)
Income tax recovery (Note 11)	8,637	1,000	-
Net income (loss) for the year	$ **20,170**	$ (6,281)	$ (13,215)
Net income (loss) per share - basic	$ **0.96**	$ (0.36)	$ (0.78)
Net income (loss) per share - diluted	$ **0.85**	$ (0.36)	$ (0.78)
Weighted average number of Common Shares outstanding - basic	**20,914,365**	**17,679,987**	**16,865,644**
Weighted average number of Common Shares outstanding - diluted	**23,728,738**	**17,679,987**	**16,865,644**

*See accompanying notes to consolidated financial statements

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Consolidated Statements of Shareholders' Equity

(In thousands)	Common Shares Shares	Common Shares Amount	Special Warrants Shares	Special Warrants Amount	Other Capital Amount	Employee Share Purchase Loans	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of June 30, 1996	16,236	$ 93,560	-	$ -	$ 9,116	$ (240)	$ (46,549)	$ (340)	$ 55,550
Issuance of Common Shares									
Conversion of shares set aside									
including employee stock options	672	7,040	-	-	(7,040)	(143)	-	-	(143)
Under employee stock option plans	296	500	-	-	-	-	-	-	500
Comprehensive income:									
Foreign currency tranlation adjustment	-	-	-	-	-	-	-	(237)	(237)
Net loss for the year	-	-	-	-	-	-	(13,215)	-	(13,215)
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	(13,452)
Balance as of June 30, 1997	17,204	101,103	-	-	2,076	(383)	(59,764)	(577)	42,455
Issuance of Common Shares									
Conversion of shares set aside	4	54	-	-	(54)	-	-	-	-
Under employee stock options plans	879	3,951	-	-	-	-	-	-	3,951
Issuance of Special Warrants	-	-	1,750	$ 34,800	-	-	-	-	34,800
Reduction in original investments	-	-	-	-	(1,867)	-	-	-	(1,867)
Repayment of employee share purchase loans	-	-	-	-	-	383	-	-	383
Comprehensive income:									
Foreign currency translation adjustment	-	-	-	-	-	-	-	(367)	(367)
Net loss for the year	-	-	-	-	-	-	(6,281)	-	(6,281)
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	(6,648)
Balance as of June 30, 1998	18,087	105,108	1,750	34,800	155	-	(66,045)	(944)	73,074
Issuance of Common Shares									
Conversion of shares set aside	9	91	-	-	(91)	-	-	-	-
Under employee stock option plans	1,355	9,075	-	-	-	-	-	-	9,075
On acquisitions	10	307	-	-	-	-	-	-	307
Conversion of special warrants	1,750	34,800	(1,750)	(34,800)	-	-	-	-	-
Additional costs related to Mar '98 issue									
of special warrants	-	(31)	-	-	-	-	-	-	(31)
Under employee stock purchase plans	70	902	-	-	-	-	-	-	902
Issuance of special warrants	-	-	3,000	97,420	-	-	-	-	97,420
Comprehensive income:									
Unrealized gain on available for									
sale securities	-	-	-	-	-	-	-	31,699	31,699
Foreign currency translation adjustment	-	-	-	-	-	-	-	209	209
Net income for the year	-	-	-	-	-	-	20,170	-	20,170
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	52,078
Balance as of June 30, 1999	21,281	$ 150,252	3,000	$ 97,420	$ 64	-	$ (45,875)	$ 30,964	$ 232,825

Consolidated Statements of Cash Flows

(In thousands of US Dollars)

	Year Ended June 30, 1999	1998	1997
Cash flows from operating activities:			
Net income (loss) for the year	$ 20,170	$ (6,281)	$ (13,215)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation	4,225	2,374	1,689
Amortization and write down of intangible assets and acquired in-process research and development	5,701	8,755	-
Deferred taxes	(11,658)	-	-
Gain on sale of other investments	(991)	-	-
Other	(388)	(446)	(45)
Changes in operating assets and liabilities (net of assets acquired in the period):			
Accounts receivable	(8,601)	(7,864)	(3,207)
Other assets and goodwill	5,575	-	-
Prepaid expenses and other current assets Prepaid expenses and other current assets	(5,244)	415	(204)
Provision for restructuring	-	-	(2,339)
Accounts payable and deferred revenue	(6,004)	(5,095)	2,049
Net cash provided by (used in) operating activities	2,785	(7,142)	(15,272)
Cash flows from investing activities:			
Acquisitions of furniture and equipment	(4,747)	(3,733)	(2,623)
Purchase of other investments	(3,524)	(2,386)	(1,389)
Proceeds of sale of other investments	3,928	-	6,345
Purchase of OnTime group net of cash acquired	-	(5,485)	-
Purchase of Information Dimensions group net of cash acquired	-	(7,829)	-
Purchase of Lava Systems	(5,797)	-	-
Proceeds from (additions to) other assets	(340)	(467)	(5,967)
Net cash used in investment activities	(10,480)	(18,900)	(3,634)
Cash flow from financing activities:			
Payments of obligations under capital leases, including current portion	(203)	(597)	(828)
Proceeds from issuance of Special Warrants	97,420	34,800	-
Proceeds from issuance of Common Shares	10,344	2,084	500
Employee share purchase loans	-	383	(143)
Net cash provided by (used in) financing activities	107,561	36,670	(471)
Increase (decrease) in cash and cash equivalents during the year	99,866	8,628	(19,377)
Cash and cash equivalents at beginning of the year	40,390	31,762	51,139
Cash and cash equivalents at end of the year	$ 140,256	$ 40,390	$ 31,762

*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 products are sold primarily to Global 2000 customers. The Company's shares trade publicly on the Nasdaq Stock Market - National market ("Nasdaq"), under the symbol OTEX 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 ("US GAAP").

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 GAAP 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. Gains and losses upon asset disposal are taken into income in the year of disposition.

Goodwill and intangible assets

Goodwill and intangible assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over two to ten years.

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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, provided that the Company has no remaining service obligations under the license agreement other than customer support agreements, the fees are fixed and determinable 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, 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, 1999 and June 30, 1998.

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.

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.

Earnings per share

Basic earnings per share is computed using the weighted average number of shares of common shares. Diluted earnings per share is computed using the weighted average number of shares of common shares and common share equivalents outstanding during the period. Common share equivalents consist of stock options (using the treasury stock method) and Special Warrants. In fiscal 1998, common share equivalents are excluded for the computation if their effect is antidilutive.

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Basic earnings (loss) per share			
Net income (loss)	$ 20,170	$ (6,281)	$ (13,215)
Weighted average number of common shares outstanding	20,914	17,680	16,866
Basic earnings (loss) per common share	$ 0.96	$ (0.36)	$ (0.78)
Diluted earnings (loss) per share			
Net income (loss)	$ 20,170	$ (6,281)	$ (13,215)
Weighted average number of common shares outstanding	20,914	17,680	16,866
Number of common share equivalents as a result of stock options outstanding	2,814	-	-
Weighted average number of common shares and common share equivalents outstanding	23,728	17,680	16,866
Diluted earnings (loss) per common share and common share equivalents	$ 0.85	$ (0.36)	$ (0.78)

Recent accounting pronouncements

On December 15, 1998, the AICPA issued Statement of Position No.98-9 ("SOP 98-9"), "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions". SOP 98-9 amends certain paragraphs of SOP 97-2, "Software Revenue Recognition", to require recognition of revenue using the "residual method" when (1) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting, (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement, and (3) all revenue-recognition criteria in SOP 97-2 other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. SOP 98-9 also amends SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition", to extend the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 to the Company's June 30, 2000 fiscal year. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. The Company is currently reviewing the effects of SOP 98-9 on its June 30, 2000 fiscal year.

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.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidance regarding the determination of whether computer software is internal-use software, the capitalization of costs incurred for computer software developed or obtained for internal use and accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. The Company has not yet determined the effect, if any, of adopting SOP 98-1, which will be effective for the Company's fiscal year ending June 30, 2000.

In March 1998, the AICPA issued Statement of Position No.98-4 ("SOP 98-4"), "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition". SOP 98-4 defers, for one year, the application of certain passages in SOP 97-2 which limit what is considered vendor-specific objective evidence ("VSOE") necessary to recognize revenue for software licenses in multiple-element arrangements when undelivered elements exist. Adoption of the remaining provisions of SOP 97-2 did not have a material impact on revenue recognition during fiscal year 1999.

NOTE 3—AVAILABLE FOR SALE SECURITIES

About.com. During fiscal 1997, the Company acquired a minority equity interest in About.com, Inc. ("About.com") (formerly MiningCo.com Inc. and formerly General Internet, Inc.) which presently represents 885,201 shares of common stock. In March 1999, About.com completed an initial public offering of common stock and its common stock was listed on the Nasdaq. At June 30, 1999, the closing price for About.com's common stock as reported by Nasdaq was $51.875 per share. Beginning in the quarter ended March 31, 1999, the Company is accounting for its interest in About.com as securities available for sale, and will carry the investment on its balance sheet as a current asset value at the trading value of the securities on the balance sheet date. The Company's balance sheet also includes a current liability for the estimated future tax payable if the securities were sold at the value reflected on the balance sheet. The Company's cost basis of this investment is $200,000.

Securities of Internet commerce companies such as About.com have been highly volatile, and the amount the Company will realize on this investment is uncertain. The market price since year end is lower than the price at June 30, 1999. The Company has agreed not to offer or sell it's shares in About.com until September 20, 1999 without the consent of the managing underwriter of the initial public offering.

NOTE 4—FURNITURE AND EQUIPMENT

	June 30, 1999		
	Cost	Accumulated Depreciation	Net
		(in thousands)	
Furniture and fixtures	$ 3,743	$ 1,556	$ 2,187
Office equipment	398	256	142
Computer hardware and software	18,938	11,749	7,189
Leasehold improvements	814	344	470
	$ 23,893	**$ 13,905**	**$ 9,988**

	June 30, 1998		
	Cost	Accumulated Depreciation	Net
		(in thousands)	
Furniture and fixtures	$ 3,025	$ 1,182	$ 1,843
Office equipment	294	196	98
Computer hardware and software	16,099	9,675	6,424
Leasehold improvements	539	194	345
	$ 19,957	**$ 11,247**	**$ 8,710**

NOTE 5—BANK INDEBTEDNESS

The Company and its subsidiaries have credit facilities totaling Cdn $10.0 million (USD $6.79 million) (1998 - USD $6.5 million) that are secured by a general security agreement, at prime rate of interest (6.25% as of June 30, 1999). During 1999, 1998 and 1997, borrowings and interest cost on bank indebtedness were insignificant.

NOTE 6—ACCOUNTS PAYABLE—TRADE AND ACCRUED LIABILITIES

Accounts payable – trade and accrued liabilities are as follows:

	June 30, 1999	June 30, 1998
	(in thousands)	
Accounts payable - trade	$ 4,369	$ 2,734
Accrued trade liabilities	3,405	3,061
Amounts payable related to acquisitions	1,265	7,196
Accrued salaries and commissions	4,815	4,173
Other liabilities	141	232
	$ 13,995	**$ 17,396**

NOTE 7—SHARE CAPITAL

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

The authorized share capital of the Company includes an unlimited number of first preference shares, of which none are issued.

On May 3, 1999, the Company completed the issuance of 3,000,000 Special Warrants convertible into Common Shares at a price of $34.00 per Special Warrant for net proceeds of $97 million. Each Special Warrant entitles the holder, upon exercise thereof in accordance with its terms, to acquire one Common Share without payment of additional consideration.

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. 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.

In February 1999, the Company announced its intention to purchase from time to time, if considered advisable and subject to regulatory approval, up to an aggregate of 1 million common shares, being less than 5% of its common shares, on the Nasdaq National Market and The Toronto Stock Exchange over the next 12 months. All common shares purchased by Open Text pursuant to the notice will be cancelled. As of June 30, 1999 no purchases have been made.

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 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, 1999, 524,000 options had been granted to date and 132,000 had been cancelled to date under the Directors Plan of which 286,500 options in total are outstanding and eligible to purchase Common Shares as follows: 74,000 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; 70,000 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 86,500 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 1,800,000 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.

With the approval of the New Option Plan on June 23, 1998 by the Board, no further options will be issued under any of the previous option plans. 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. During fiscal 1999, additional new options to purchase 1,458,045 Common Shares were granted under the New Option Plan at an average exercise price of $18.80.

Summary of Outstanding Stock Options

As of June 30, 1999, options to purchase an aggregate of 4,415,046 Common Shares were outstanding under all of the Company's stock option plans out of an allowable pool of options totaling 4,804,126. Options to purchase 1,010,361 shares were exercisable at an average price of $7.14. At June 30, 1998, options to purchase 1,055,020 shares were exercisable at an average price of $5.96. At June 30, 1997 options to purchase 628,368 shares were exercisable at a weighted average price of $4.37.

A summary of option activity since June 30, 1996 is set forth below:

	Options Outstanding	
	Number	Weighted Average Exercise Price
Options outstanding at June 30, 1996	1,794,756	$ 1.10
Granted during fiscal 1997	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
Granted during fiscal 1999	1,458,045	18.80
Cancelled and expired	(745,349)	9.38
Exercised	(1,363,740)	6.66
Options outstanding at June 30, 1999	**4,415,046**	$ 11.35

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The following table summarizes information regarding stock options outstanding at June 30, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at June 30, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding at June 30, 1999	Weighted Average Exercise Price
		(Years)			
$ 0.0006 - $ 0.15	143,476	5.83	$ 0.14	108,176	$ 0.14
3.98 - 6.63	1,380,908	7.28	5.60	416,683	5.62
6.88 - 8.00	235,620	7.78	7.79	102,970	7.93
8.50 - 11.25	822,146	8.22	9.69	294,981	9.48
11.44 - 20.94	1,354,801	9.04	13.89	87,551	14.23
21.88 - 31.50	478,095	9.78	28.73	-	-
0.00 - 31.50	**4,415,046**	8.25	11.35	**1,010,361**	7.14

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. During fiscal 1999, a total of 69,654 Common Shares were issued under the ESPP.

SFAS 123

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 and the employee stock purchase plan have 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:

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Net income (loss) for the year			
As reported	$ 20,170	$ (6,281)	$ (13,215)
Pro forma	$ 12,213	$ (14,304)	$ (16,105)
Net income (loss) per share - basic			
As reported	$ 0.96	$ (0.36)	$ (0.78)
Pro forma	$ 0.60	$ (0.81)	$ (0.96)
Net income (loss) per share - diluted			
As reported	$ 0.85	$ (0.36)	$ (0.78)
Pro forma	$ 0.54	$ (0.81)	$ (0.96)

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

	June 30, 1999	1998	1997
		(in thousands)	
Volatility	79.3%	63.6%	75.0%
Risk-free interest rate	6.0%	6.0%	6.0%
Dividend yield	-	-	-
Expected lives (in years)	5.80	5.54	5.16
Weighted average fair value (in dollars)	21.76	13.87	7.53

The fair value of each employee stock purchase plan share on the date of grant was estimated using the Black-Scholes option pricing model for June 30, 1999 using a volatility rate of 81.3%, a risk-free interest rate of 5.0%, no dividend yield, an expected life of one-half year for a weighted fair value of $4.94.

NOTE 9—COMMITMENTS

The Company has entered into operating leases for premises and vehicles with minimum annual payments as follows:

	(in thousands)
2000	$ 3,765
2001	2,745
2002	1,620
2003	1,515
2004	500
Thereafter	6,415
	$ 16,560

Rent expense amounted to $3.4 million in 1999, $2.2 million in 1998 and $1.3 million in 1997.

NOTE 10—OTHER INCOME

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Gain on sale of Yahoo common shares	-	-	$ 5,845
Gain on sale of investments, net of disposal costs	$ 991	-	-
Gain associated with investment activities	1,080	-	-
Loss provision for About.com	-	-	(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	2,071	-	45
Cost associated with investment activities	(1,196)	-	-
Balance of other income	(448)	$ 280	12
Other income	**$ 427**	**$ 280**	**$ 57**

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.

On October 17, 1996, pursuant to an agreement signed on the date between the Company About.com, the Company converted its advances to About.com to a promissory note.

In March 1997, the Company remeasured the value of the promissory note requiring a further write down of $3.7 million which was charged to operations as of March 31, 1997. The Company's loans and advances to About.com were eventually converted into other securities and common shares (See Note 3).

NOTE 11—INCOME TAXES

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

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Income (loss) before income taxes	$ 11,533	$ (7,281)	$ (13,215)
Combined basic Federal and Provincial income tax (expense) recovery at 44.6% as of June 30, 1999, 1998 and 1997	$ (5,144)	$ 3,247	$ 5,854
Difference resulting from:			
Effect of foreign tax rate	459	-	-
Unrecorded benefit of loss carryforwards and temporary differences	-	(3,247)	(5,854)
Benefit of loss carryforwards utilized	4,239	-	-
Reduction in deferred tax assets	(1,000)	-	-
Reduction in valuation allowance	10,083	1,000	-
Income tax recovery	$ 8,637	$ 1,000	-

The Company's income (loss) before income taxes for the year is allocated to tax jurisdictions as follows:

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Canada	$ 3,650	$ (6,919)	$ (10,773)
United States	7,431	(969)	(1,123)
Other	452	607	(1,319)
	$ 11,533	$ (7,281)	$ (13,215)

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The income tax recovery is comprised of current and deferred income taxes as follows:

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Current tax expense	-	-	-
Canadian federal	-	-	-
Canadian provincial	-	-	-
Foreign	$ (446)	-	-
	$ (446)	-	-
Deferred tax recovery			
Canadian federal	$ 4,606	$ 1,000	-
Canadian provincial	1,036	-	-
Foreign	3,441	-	-
	9,083	1,000	-
Income tax recovery	**$ 8,637**	**$ 1,000**	**-**

The Company and its subsidiaries have approximately $45 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 $8 million have no expiration date, and the balance of losses and deductions expire as follows:

	Year Ended June 30,
	(in thousands)
2000	$ -
2001	-
2002	-
2003	4,000
2004	2,000
2005	2,000
Thereafter	29,000
	$ 37,000

The Company also has tax credits available of $1.9 million in Canada and the United States that expire from 2004 to 2019.

Deferred income taxes reflect tax loss carryforwards and 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:

	Year Ended June 30, 1999	1998
	(in thousands)	
Current deferred tax asset:		
Losses available to offset future income taxes	$ 6,000	$ -
Less valuation allowance	(2,000)	-
	$ 4,000	**$ -**
Current deferred tax liability:		
Losses available to offset future income taxes	$ 5,400	$ -
Tax credits	470	-
Deferred tax on available for sale securities	(14,022)	-
	$ (8,152)	**$ -**
Long-term deferred tax asset:		
Loss available to offset future income taxes	$ 3,285	$ 16,693
Tax credits	1,463	688
Share issue costs	1,741	2,454
Intangibles	1,836	534
	8,325	20,369
Less valuation allowance	(5,696)	(19,369)
	2,629	1,000
Furniture and equipment	(841)	-
	$ 1,788	**$ 1,000**

Long-term deferred tax assets are included in other assets.

Approximately $1.6 million of the decrease in valuation allowance in 1999 was attributed to benefits acquired in an acquisition and accordingly was charged against the goodwill of that acquisition. A further $1.3 million in benefits will be charged against the goodwill of an acquisition as the valuation allowance on that benefit is reduced.

Included in losses available to offset future income taxes are benefits associated with employee's stock option exercises in the amount of $5.8 million (1998-$1.1 million). As the valuation allowance against these deductions are reduced in the future, the benefit of the deductions is credited to shareholders' equity.

The Company believes that sufficient uncertainty exists regarding the realization of certain deferred tax assets that a valuation allowance is required. The Company continues to evaluate and examine the valuation allowances on a quarterly basis and at such time future uncertainties are resolved, the valuation allowances may be reduced further.

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NOTE 12—SEGMENT INFORMATION

In 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the reporting by public business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method of determining what information to report is based on the way that management organizes the operating segments within the Company for making operational decisions and assessments of financial performance.

The Company has two reportable segments: North America, and Europe. The Company evaluates operating segment performance based on net revenues and direct operating expenses of the segment. The accounting policies of the operating segments are the same as those described in the summary of accounting policies. No segments have been aggregated.

Information about reported segments are as follows:

	North America	Europe	Other	Total
		(in thousands)		
1999				
Revenue from external customers	$ 52,989	$ 34,764	$ 4,784	$ 92,537
Operating costs	43,355	27,123	3,081	73,559
Contribution margin	**$ 9,634**	**$ 7,641**	**$ 1,703**	**$ 18,978**
Segment assets	**$ 62,569**	**$ 26,340**	**$ 814**	**$ 89,723**
1998				
Revenue from external customers	$ 33,688	$ 10,501	$ 1,111	$ 45,300
Operating costs	34,028	9,086	377	43,491
Contribution margin	**$ (340)**	**$ 1,415**	**$ 734**	**$ 1,809**
Segment assets	**$ 87,022**	**$ 13,560**	**$ -**	**$ 100,582**
1997				
Revenue from external customers	$ 19,438	$ 3,210	-	$ 22,648
Operating costs	30,333	4,316	-	34,649
Contribution margin	**$ (10,895)**	**$ (1,106)**	**$ -**	**$ (12,001)**
Segment assets	**$ 50,403**	**$ 1,942**	**$ -**	**$ 52,345**

For the year ended June 30, 1999 and 1998, the "Other" category consists of geographic regions other than North America and Europe.

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements for the years ended June 30, 1999 and 1998 is as follows:

	Year Ended June 30,		
	1999	1998	1997
		(in thousands)	
Total contribution margin from operating segments above	$ 18,978	$ 1,809	$ (12,001)
Intercompany transactions	- -	-	
Amortization and depreciation	(10,167)	(10,990)	(2,339)
Total operating income (loss)	$ 8,811	$ (9,181)	$ (14,340)
Interest, other income and taxes	11,359	2,900	1,125
Net income (loss)	**$ 20,170**	**$ (6,281)**	**$ (13,215)**

	June 30,		
	1999	1998	1997
		(in thousands)	
Segment assets	$ 89,723	$ 100,582	$ 52,740
Available for sale securities	45,920	-	-
Cash and cash equivalents	135,001	-	-
Intercompany balances	-	-	(395)
Total corporate assets	**$ 270,644**	**$ 100,582**	**$ 52,345**

Contribution margin from operating segments does not include amortization of intangible assets, acquired in-process research and development and restructuring costs. Goodwill and intangibles have been included in segment assets.

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The distribution of net revenues determined by location of customer, and identifiable assets, greater than 10%, by geographic areas for the years ended June 30, 1999, 1998, 1997 are as follows:

	Year Ended June 30, 1999	1998	1997
		(in thousands)	
Net revenues:			
Canada	$ 7,019	$ 7,375	$ 5,829
United States	49,996	28,584	13,366
United Kingdom	14,057	3,280	-
Other	28,484	13,436	9,282
Total revenues	$ 99,556	$ 52,675	$ 28,477

	June 30, 1999	1998	1997
		(in thousands)	
Segment assets:			
Canada	$ 59,248	$ 50,077	$ 41,966
United Kingdom	12,597	1,095	163
Other	17,878	49,410	10,216
Total segment assets	$ 89,723	$ 100,582	$ 52,345

NOTE 13—SUPPLEMENTAL CASH DISCLOSURES

	Year Ended June 30, 1999	1998	1997
		(in thousands)	
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 47	$ 125	$ 148
Supplemental Schedule of non-cash investing and financing activities:			
Equipment purchased under capital leases	-	-	400
Conversion of special warrants to Common Shares	34,800	-	-
Conversion of shares set aside to Common Shares	91	54	7,040

NOTE 14—ACQUISITIONS

Fiscal 1999

Lava

On December 29, 1998 the Company acquired certain of the assets and liabilities of Lava Systems Inc., ("Lava") for approximately $2.3 million in cash paid at closing, in a transaction which has been accounted for under the purchase method. The operations of Lava 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 Lava's document management software and its professional services organization. Although Lava's technology is a 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. In view of the preceding, it is believed that the acquisition of Lava provides the Company with an opportunity to successfully advance collaborative knowledge management technology.

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

	(in thousands)
Tangible net liabilities	$ (4,051)
Current software products	707
Goodwill	2,222
Acquired in-process research and development	3,419
	$ 2,297

Included in tangible net liabilities is an amount of $4.5 million for direct acquisition costs, involuntary terminations, costs to exit certain activities and certain contingencies. The liabilities included $765,000 for direct acquisition costs, $800,000 for involuntary terminations of management and certain development, sales and administrative staff, $1.1 million for lease terminations, relocation expenses and other contract losses and $1.9 million for potential claims of former employees of Lava for terminations occurring prior to the acquisition date. These potential claims have been recorded based on estimates which management believes are reasonable, however, the amount may change as management obtains more information about the outcome of various claims. Should further information indicate that the amount is different than the estimate made, any adjustments to the amount determined prior to December 29, 1999 will adjust the goodwill recorded as of the date of the acquisition. It is expected that these claims will be settled by the end of fiscal 2000. During the year ended June 30, 1999, the Company paid and charged against the liability $800,000 for involuntary terminations, $1.1 million for lease terminations, relocation expense and other contract losses and $600,000 in claims from former employees.

As of the date of acquisition of Lava, the Company determined there were a number of research and development projects in process. The projects were about 74% complete at the time of acquisition. The most significant project, Lava Claims Enabler, a Livelink Module is slated for completion in the middle of calendar 1999. The Company believes that there are critical issues in Claims Enabler that its research and development efforts need to address to reach completion. Should these technical issues not be addressed in the estimated time, the Company expects the release of Claims Enabler in particular could be delayed.

The valuation of the in-process research and development was prepared using the stage of completion model whereby future net operating cash flows from products currently being developed are discounted to present values using a risk-adjusted discount rate of 30% after appropriate allocation to existing core products. In the valuation model, the Company contemplated sales of $750,000 in fiscal 1999, $1.5 million in 2000, and $2 million in 2001. The Lava Claims Enabler product requires a significant amount of integration at each installation and accordingly professional service revenue is contemplated to be $1.9 million in fiscal 1999, $3.8 million in 2000, $5 million in 2001. Product margins and professional services margins and operating costs used in the valuation model were similar to those the Company currently experiences.

As a result of the valuation, the fair market value of the acquired in-process research and development was determined to be $3.4 million. In accordance with applicable accounting rules, this amount was expensed upon acquisition in the second quarter of fiscal 1999.

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 $707,000. This amount was recorded as an asset and will be amortized on a straight-line basis over two years. The excess of the purchase price over the fair value of acquired indentifiable assets and liabilities assumed has been recorded as goodwill in the amount of $2.2 million which will be amortized on a straight-line basis over ten years.

The following pro forma consolidated information shows the results of operations for the years ended June 30, 1999 and 1998 as if the Lava acquisition had occurred on July 1, 1997 and acquired in-process research and development costs were expensed as of July 1, 1997. 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, 1999	1998
	(in thousands, except share and per share data unaudited)	
Pro forma total revenues	$ 96,582	$ 60,053
Pro forma income (loss) for the year	$ 13,970	$ (49,314)
Weighted average number of Common Shares outstanding - diluted	23,728,738	17,679,987
Pro forma income (loss) per share - diluted	$ 0.59	$ (2.79)

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. 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. Product liabilities included in tangible net assets of $4.0 million was discharged for costs equal to $4.0 million.

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

	(in thousands)
Tangible net liabilities	$ (11,026)
Current software products	569
Core technology	3,372
Acquired in-process research and development	5,477
Goodwill	9,708
	$ 8,100

The software technology valuation was accomplished through the application of the stage of completion model. Projected revenue net of operating expenses and income taxes were discounted to a present value using a risk adjusted rate of return. Software technology was divided into three categories:

- current software products
- core technology
- in-process research and 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 $569,000. This amount was recorded as an asset and is being amortized on a straight-line basis over four years. The fair market value of core technology was determined to be $3.4 million. This amount was recorded as an asset and is being amortized on a straight-line basis over seven years.

As a result of the valuation, the fair market value of the acquired in-process research and development costs was determined to be $5.5 million. In accordance with applicable accounting rules, this amount was expensed upon acquisition.

Acquired in-process research and development costs represented the present value of Information Dimensions technology acquired that required completion. The most significant of these products is CIC/Techlib, a new product under design at Information Dimensions and was approximately 80% complete at the date of acquisition. The Company plans to re-engineer this product as in its current form, it does not have the scalability, features and web enablement that are required to be a saleable product in the current marketplace. The Company continues to assess the capability of these existing products and currently estimates that future versions will become available beginning in the middle of fiscal year 1999. Should the Company encounter issues in the design of the products, such as scalability, that require further product redesign, the release of future products could be delayed significantly. The Company estimates a further $2 million will be required to complete the existing products and estimates a completion date at the end of calendar 1998.

The Company valued the research and development in process for the above products using the stage of completion model whereby future net operating cash flows from products currently being developed are discounted to present values using a risk-adjusted discount rate of 30% and assuming pricing and cost structures that the Company currently experiences on its existing products.

The excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed has been recorded as goodwill in the amount of $9.7 million which will be amortized over ten years.

OnTime

On December 3, 1997 the Company acquired certain of the assets and liabilities of OnTime for approximately $6.7 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.

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	$ (2,214)
Current software products	1,088
Core technology	1,631
Goodwill	6,195
	$ 6,700

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Included in tangible net liabilities is an amount of $1.1 million for direct acquisition costs, involuntary terminations and exit costs. The liabilities included $625,000 for direct acquisition costs, $315,000 for involuntary terminations and $180,000 for moving costs. The involuntary terminations related to finance, administration and sales employees of OnTime. All actions under these plans were completed during the year ended June 30, 1998 with no material differences from the estimates made at the date of acquisition.

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 product
- core technology

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 $1.1 million. This amount was recorded as an asset and is being amortized on a straight-line basis over four years. Fair market value of the purchased core technology was determined to be $1.6 million. This amount was recorded as an asset and is being amortized on a straight-line basis over seven years.

As a result of the valuation, the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed has been recorded as goodwill of $6.2 million. In accordance with applicable accounting rules, this amount was capitalized upon acquisition and will be amortized on a straight-line basis over a ten year period.

The Company subsequently revised the current software products and core technology valuation for OnTime resulting in an additional write down of $2.5 million and this amount has been included in acquired in-process research and development.

As of June 30, 1998, costs accrued under the Information Dimensions and OnTime acquisitions for involuntary terminations and relocation were $1.6 million. The Company made charges of $1.6 million to reserves in the year ended June 30, 1999 and no reserve balance exists at June 30, 1999.

NOTE 15—SUBSEQUENT EVENTS

On July 26, 1999 the Company announced it has entered into an agreement with Microstar Software Ltd. ("Microstar") of Ottawa, Ontario to acquire all the outstanding shares of Microstar for Cdn $2.10 per share payable in cash for approximate total consideration of Cdn $6.9 million (US $4.7 million). Microstar has agreed not to solicit other offers and has agreed to pay Open Text a break-up fee equal to approximately 4% of the equity value of Microstar if the transaction is not completed in certain circumstances. In addition, Microstar has granted an option to Open Text, exercisable only in the circumstances in which the break-up fee is payable, to purchase treasury common shares equal to 19% of the issued and outstanding shares of Microstar at an exercise price of Cdn $2.10 per share. The offer is subject to standard conditions including at least 66 2/3% of the shares being tendered to the offer, regulatory approvals and due diligence. Shareholders holding in the aggregate approximately 35% of the shares of Microstar have agreed to tender their shares to the offer.

NOTE 16—RECLASSIFICATION

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

NOTE 17—LEGAL PROCEEDINGS

The Company is engaged in a dispute with a Swedish company that distributes its products in Scandinavia. The Company initiated an action under the arbitration provisions in Ontario of the distribution agreement claiming that the distributor is in breach of the Agreement, damage related to this breach and for payment of certain fees incurred by the distributor. The distributor subsequently brought an action in Ontario against the Company, which has been stayed by the Ontario court pending a decision by the arbitrators as to the scope of the arbitration agreement between the parties. In connection with the action brought by the distributor, the Company does not believe it will incur any material liability.

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COMMON STOCK

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Toronto Stock Exchange
Ticker Symbol: OTC

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