CANADIAN VENTURE EXCHANGE

Consolidated Financial Statements

for the Year Ended December 31, 1999

1999 Financial Review

Overview

The Canadian Venture Exchange Inc. (CDNX) was created in November 1999 as Canada's national junior equities market, a successor to the former Vancouver Stock Exchange (VSE) and The Alberta Stock Exchange (ASE). Regulatory recognition of CDNX operating as a single market was received on November 26, 1999.

The financial statements included in this publication represent the results of operations of CDNX and its predecessors for 1999 (with comparative figures for 1998), utilizing the pooling of interests method. Under this method of accounting, results from the predecessor exchanges are used as if they had always been combined.

At December 31, 1999, CDNX had 2,513 listed securities representing 2,358 listed companies.

Revenues for the year were $34.6 million, a decrease of 7% from 1998. Expenses, excluding merger and restructuring costs, totaled $33.2 million, 15% lower than the $39.2 million for 1998.

CDNX achieved operating earnings before merger and restructuring expenses of $1.4 million for 1999, compared to a loss of $1.9 million for 1998. The Exchange's cost-reduction measures, begun in 1998, more than offset reduced revenues. Additionally, earnings were helped by a surge in trading volume in November and December.

Revenues

Trading and related fees for 1999 were $9.3 million, compared with $8.7 million for 1998. The increase is chiefly due to higher trading volumes at the end of the year, and to a lesser extent, a change in the billing arrangement for network costs.

Average daily trades of 8,594 in 1999 were 20% better than 1998.

The Exchange's electronic trading system handled average daily trade volumes of 14,265 in December 1999, an increase of 116% over December 1998 and more than 60% above the 1999 daily average.

Listed company fees of $10.4 million for 1999 were 10% below the 1998 level of $11.5 million. Listed companies completed approximately $1.4 billion in financings during the year, 18% lower than 1998 at $1.7 billion.

Market information products revenue of $11.4 million for the year were down 9% from 1998. Revenues are largely generated by market information vendor feeds for the distribution of trading data to customers throughout North America. The reduction is a result of a January 1, 1999, change in the Canadian Exchange Group's revenue sharing agreement.

Investment income at $1.2 million was down 38% from 1998 as a result of lower cash reserves and a write-down of the value of short-term bonds.

Other revenues, at $2.3 million, were down $0.2 million from 1998. Included in this category are: member fees, registrations, cooperative business development activities and regulatory enforcement fines.

1999 Financial Review

Expenses

Operating expenses totalling $33.2 million were reduced by 15% from 1998. The decrease is reflective of staff reductions at the Vancouver operations office during the slow market conditions that began in late 1997. Additionally, information and trading systems expenses were reduced as technology resources were directed to merger projects.

Merger and restructuring expenses totalled $12.6 million, including provisions for all costs related to the merger of the predecessor ASE and VSE. The major components were technology, legal and severance costs as well as payments to The Montreal Exchange (described in Note 3 to the financial statements). Expenses associated with the establishment of additional CDNX offices nationally will be expensed as incurred.

Project expenditures (excluding merger and restructuring projects) totalled $1.1 million for the year, compared to $4.2 million for 1998, and covered a variety of technology improvement initiatives and upgrades. Projects to ensure system readiness for the Year 2000 were substantially completed in 1998, but considerable readiness testing across the industry continued in 1999. Consequently, the Exchange experienced no year 2000 rollover related problems.

Financial Position

Cash reserves remained strong at $24.0 million at year-end, representing a decrease of $5.7 million from December 31, 1998. Cash was principally used for merger and restructuring expenses and the purchase of capital assets. Cash was generated by earnings before merger and restructuring costs and amortization, changes in non-cash working capital items (primarily increases in accounts payable), and a reduction in segregated cash required.

Of the increase in accounts receivable over 1998, about half is attributable to a timing change in the billing of listed company sustaining fees for 2000, which was offset by a corresponding increase in deferred revenue. The other half of the receivables increase is due to high November and December billings and a change in the method of charging trading network costs. Accounts payable was higher at December 31, 1999, due to merger items.

Management's Responsibility for Financial Reporting

Management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the consolidated financial statements. The financial statements were prepared in accordance with accounting principles generally accepted in Canada, and in the opinion of management, fairly reflect, in all material respects, the financial position, results of operations and cash flows of the Exchange.

Acting through the Finance and Audit Committee, the Board of Directors oversees the management's responsibility for financial reporting and internal control systems. The Finance and Audit Committee is responsible for reviewing the financial statements and recommending them to the Board of Directors for approval. To discharge its duties, the committee meets with management and external auditors to discuss audit plans, internal controls over accounting and financial reporting processes, auditing matters and financial reporting issues.

As the external auditors, PricewaterhouseCoopers LLP are responsible for reporting to shareholders on the fairness of the Exchange's presentation of the annual financial statements. The external auditors have full and free access to, and meet periodically with, Exchange management and the Finance and Audit Committee to discuss the audit. The Auditors' Report outlines the scope of their examination and their opinion.

Auditors' Report

To the Shareholders of Canadian Venture Exchange Inc.

We have audited the consolidated balance sheet of Canadian Venture Exchange Inc. (CDNX) as at December 31, 1999 and the consolidated statements of operations and accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of CDNX's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian 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 financial position of CDNX as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
February 25, 2000

Consolidated Balance Sheet

As at December 31, 1999
(000's)

	1999	1998
	$	$
ASSETS		
Current assets		
Cash and short-term investments	23,966	29,698
Accounts and other receivables	9,309	5,695
Prepaid expenses	1,015	508
	34,290	35,901
Segregated cash (note 4)	2,000	4,000
Other assets (notes 5 and 7)	487	521
Capital assets (note 6)	3,681	5,031
	40,458	45,453
LIABILITIES AND SHAREHOLDERS' CAPITAL		
Current liabilities		
Accounts payable	8,607	3,888
Deferred revenue	5,031	3,341
Current portion of capital lease	-	17
	13,638	7,246
Other liabilities (note 7)	141	155
	13,779	7,401
Shareholders' Capital		
Capital stock (note 8)	5,080	5,200
Accumulated surplus	21,599	32,852
	26,679	38,052
	40,458	45,453

Approved by the Board of Directors

Dennis N. Burdett
Chair

Kenneth G. Hanna
Chair, Finance and Audit Committee

Consolidated Statement of Operations and Accumulated Surplus

For the Year Ended December 31, 1999

(000's)

	1999	1998
	$	$
Revenue		
Trading and related fees	9,281	8,701
Listed company fees	10,395	11,511
Information products	11,388	12,494
Investment income	1,221	1,973
Other revenue	2,326	2,549
	34,611	37,228
Expenses		
Compensation and benefits	18,175	20,180
Information and trading systems	4,257	6,554
Administration	5,311	5,497
Amortization	2,005	2,575
Premises	2,372	2,382
Communication and promotion	1,116	1,963
	33,236	39,151
Earnings (loss) before the following	1,375	(1,923)
Merger and restructuring expenses (note 3)	(12,628)	-
Loss for the year	(11,253)	(1,923)
Accumulated surplus - Beginning of year	32,852	34,775
Accumulated surplus - End of year	21,599	32,852

Consolidated Statement of Cash Flows

For the Year Ended December 31, 1999
(000's)

	1999	1998
	$	$
Cash flows from operating activities		
Loss for the year	(11,253)	(1,923)
Item not affecting cash - amortization	2,005	2,575
	(9,248)	652
Net changes in non-cash working capital items	2,288	149
	(6,960)	801
Cash flows from financing activities		
Capital lease repayments	(17)	(445)
Issue (repurchase) of capital stock	(120)	90
	(137)	(355)
Cash flows from investing activities		
Purchase of capital assets	(655)	(1,685)
Receipt of refundable tax	20	19
Reduction in segregated cash	2,000	-
	1,365	(1,666)
Decrease in cash and short-term investments	(5,732)	(1,220)
Cash and short-term investments - Beginning of year	29,698	30,918
Cash and short-term investments - End of year	23,966	29,698

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1999
(All numbers in tables expressed in thousands)

1. Nature of operations

Canadian Venture Exchange Inc. (CDNX) was incorporated under the Alberta Business Corporations Act, Province of Alberta, Canada on October 29, 1999, for the purpose of providing a market for the buying and selling of securities in connection with the restructuring of stock exchanges in Canada (note 3). CDNX commenced operations on November 26, 1999. CDNX is a not-for-profit organization under Section 149 of the Income Tax Act (Canada) and is not subject to income taxes.

2. Significant accounting policies

Consolidation

These financial statements include the accounts of CDNX and its wholly owned subsidiaries.

Short-term investments

Short-term investments are substantially short-term treasury bills and units of pooled money-market funds managed by an investment fund manager. The pooled money market fund units have no contractual maturity date and are carried at market value. Marketable securities are carried at the lower of cost and quoted market value.

Capital assets

Capital assets are valued at cost less accumulated amortization. Amortization is provided for annually on the following basis:

Information Technology Systems	25% - 40% straight-line
Furniture and Equipment	10% - 20% straight-line
Leasehold Improvements	term of lease

On an on-going basis, CDNX undertakes projects relating to the provision of new or enhanced services, or the upgrading of services, facilities or technology systems. The non-capital portions of these projects, including consulting fees, application software and development tools, are expensed as incurred.

Listed company revenue

Sustaining fees are billed in December for the following calendar year; the unearned balance is recorded as deferred revenue. Listing and filing fees are recognized as revenue when the listing or filing applications are substantially complete; otherwise, fees received are recorded as deferred revenue.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 1999

Fair value of financial instruments

Financial instruments include short-term investments, accounts receivable and accounts payable. The fair value of these balance sheet items, which are highly liquid or short-term in nature, approximate their carrying value.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the year. Significant areas requiring the use of estimates relate to the determination of useful lives for amortization, deferred revenues and pensions valuations. Financial results, as determined by actual events, may differ from those estimates.

3. Stock exchange merger

Pursuant to an agreement dated November 1, 1999, The Alberta Stock Exchange (ASE) and Vancouver Stock Exchange (VSE) merged to create a combined national junior equities market effective after the close of trading on November 26, 1999, to be carried on by CDNX.

This combination has been accounted for using the pooling-of-interests method. Under this method, the operations of the ASE and VSE are treated as if they had always been combined. Consequently, the results of operations for the current and prior years are reflected on a combined historical accounting basis. Expenses directly related to the merger and the coincident restructuring of the Canadian capital markets, including legal fees, restructuring costs, termination and severance costs and a payment to the Montreal Exchange of $3,500,000, totalling $12,628,000, were charged to operations. CDNX also harmonized the previous accounting policies in effect for the ASE and VSE, which resulted in a reduction of $2,644,000 to the opening accumulated surplus at January 1, 1998, increased the 1998 loss by $403,000 and decreased the 1999 loss by $677,000.

CDNX's shareholder capital as of November 26, 1999, was $26,533,000. The assets and liabilities of the ASE and VSE before merger costs as at that date, consist of:

	ASE $	VSE $	Merger and restructuring adjustments $	Combined as at November 26, 1999 $
Total Assets	20,872	26,243	(11,905)	35,210
Total Liabilities	1,597	3,987	3,093	8,677
Shareholders' Capital	19,275	22,256	(14,998)	26,533

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1999

The results of the operations of the ASE and VSE from January 1, 1999 to November 26, 1999 consist of:

	ASE $	VSE $	Merger and restructuring adjustments $	Combined as at November 26, 1999 $
Revenue	10,048	20,949	-	30,997
Expenses	9,409	21,156	11,951	42,516
Net Earnings (loss) for the period	639	(207)	(11,951)	(11,519)

4. Segregated cash

CDNX participates in the Canadian Investor Protection Fund (CIPF), a trust established by stock exchanges in Canada and the Investment Dealers Association of Canada to reimburse investors for claims against Members who become insolvent. Under CIPF, CDNX is committed to pay $2,000,000 of claims against a Member of CDNX and to pay its share of claims greater than $2,000,000. CDNX has segregated cash resources of $2,000,000 for these commitments. CDNX may assess Members to recover amounts paid under its commitments to the CIPF. At December 31, 1998, the ASE and the VSE were each committed to $2,000,000 for a total of $4,000,000.

5. Other assets

	1999 $	1998 $
Refundable Tax	346	366
Settlement Assets (note 7)	141	155
	487	521

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1999

6. Capital assets

	Cost $	Accumulated amortization $	1999 Net $	1998 Net $
Furniture and Equipment	2,136	1,531	605	827
Information Technology Systems	9,405	7,385	2,020	2,898
Leasehold Improvements	4,276	3,220	1,056	1,306
	15,817	12,136	3,681	5,031

7. Settlement assets and liabilities

Settlement assets (note 5) and liabilities represent amounts that are due from or owed to participants of West Canada Depository Trust Company for open securities settlement or entitlement transactions in respect of securities registered in the name of West Canada Depository Trust Company or its nominee and beneficially owned by the participants. The amounts reported in these financial statements reflect security and entitlement positions that are outstanding.

8. Capital stock

Authorized

Unlimited Class A voting shares
Unlimited Class B non-voting shares

Issued

	1999 $	1998 $
101 (1998 - 104) Class A voting shares	4,040	4,160
26 (1998 - 26) Class B non-voting shares	1,040	1,040
	5,080	5,200

At the date of the merger, each issued voting and non-voting share was recorded at its estimated value of $40,000 and this treatment has also been applied with respect to the comparative period.

Each shareholder may hold up to two Class A shares. There is no restriction on the number of Class B shares a shareholder may hold. Shares may be transferred with the approval of CDNX's Board of Directors. During the current year, three shares were repurchased by CDNX at a price of $40,000 each.

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1999

9. Commitments

CDNX leases premises under operating lease agreements, for Calgary Corporate Office space to 2006, and for Vancouver Operations Office space covering an initial term ending in the year 2001, with a renewal option until the year 2021. The annual rent payable is base rent plus adjustments for property taxes and operating expenses. CDNX also leases information technology systems under operating lease arrangements. As well, CDNX has contractual commitments for the provision of trading network telecommunication lines of approximately $1.2 million per year, which expire during 2000.

The annual payment for these leases for the next five years and in aggregate is:

	$
2000	4,025
2001	2,239
2002	473
2003	455
2004	455
Thereafter	910
	8,557

10. Pension plans

CDNX maintains a registered pension plan that consists of a defined-contribution program for all full-time employees and a defined-benefit supplemental program for its senior officers.

As at December 31, 1999, the market value of the assets of the defined-benefit supplemental program totalled approximately $1,062,000 (1998 - $516,000) and the actuarial value of the accrued pension liabilities totalled $950,000 (1998 - $370,000), resulting in a surplus of $112,000 (1998 - $146,000).

11. Uncertainty Due to the Year 2000

The Year 2000 Issue arose because many computerized systems used two digits rather than four digits to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 date is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date.

Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect CDNX, including those related to customers, suppliers, or other third parties, will be fully resolved.

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