

*Reports and Consolidated Financial Statements of*

**TRIAN TECHNOLOGIES INC.**

*December 31, 1999 and 1998*

*(Expressed in Canadian Dollars)*

## **Management's Report**

The accompanying consolidated financial statements of the company were prepared by management in accordance with accounting principles generally accepted in Canada. Financial information presented throughout the Annual Report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the consolidated financial statements. Financial statements generally include estimates which are necessary when transactions affecting the current accounting year cannot be finalized with certainty until future years. Based on careful judgements by management, such estimates have been properly reflected in the accompanying consolidated financial statements.

Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The external auditors conduct an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in Canada in order to express their opinion on these consolidated financial statements. These standards require that the external auditors plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval.

*(Signed) Paul J. O'Sullivan*

President and Chief Executive Officer

*(Signed) Mark Stephens*

Chief Financial Officer and Corporate Secretary

## **Auditors' Report**

To the Shareholders of  
Triant Technologies Inc.

We have audited the consolidated balance sheets of Triant Technologies Inc. as at December 31, 1999 and 1998 and the consolidated statements of loss and deficit and cash flows for the years ended December 31, 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 auditing standards generally accepted in Canada. 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 the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years ended December 31, 1999, 1998 and 1997 in accordance with accounting principles generally accepted in Canada consistently applied.

*(Signed) Deloitte & Touche LLP*

Chartered Accountants  
Vancouver, Canada  
February 11, 2000

## **Comments by Auditors for U.S. Readers on Canada-U.S. Reporting Difference**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Our report to the Shareholders dated February 11, 2000, is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

*(Signed) Deloitte & Touche LLP*

Chartered Accountants  
Vancouver, Canada  
February 11, 2000

**TRIANTECHNOLOGIES INC.**  
**Consolidated Balance Sheets**  
December 31  
(Expressed in Canadian Dollars)

	1999	1998
<b>ASSETS</b>		
CURRENT		
Cash and cash equivalents	\$ 2,076,876	\$ 161,873
Accounts receivable	115,781	121,501
Share subscriptions receivable (Note 7(b))	1,879	7,168
Prepaid expenses and deposits	3,662	73,683
	2,198,198	364,225
Capital assets (Note 3)	110,594	101,731
	\$ 2,308,792	\$ 465,956
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 343,045	\$ 588,389
Deferred revenue	29,321	34,817
Accrued restructuring charges (Note 4)	-	57,625
	372,366	680,831
Liability component of convertible debentures (Note 5)	532,729	460,694
	905,095	1,141,525
COMMITMENTS (Note 11)		
<b>SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY)</b>		
Equity component of convertible debentures (Note 6)	400,000	400,000
Share capital (Note 7)	14,865,773	11,791,065
Share subscriptions (Note 7(b))	21,250	29,405
Deficit	(13,883,326)	(12,896,039)
	1,403,697	(675,569)
	\$ 2,308,792	\$ 465,956

CONTINUING OPERATIONS (Note 1)

APPROVED BY THE BOARD OF DIRECTORS

*(Signed) Paul J. O'Sullivan*

Paul J. O'Sullivan, Director

*(Signed) David L. Baird*

David L. Baird, Director

See accompanying notes to the consolidated financial statements.

**TRIANTECHNOLOGIES INC.**  
**Consolidated Statements of Loss and Deficit**  
Years ended December 31  
(Expressed in Canadian Dollars)

	1999	1998	1997
<b>REVENUE</b>			
Products	\$ 1,326,656	\$ 450,282	\$ 1,232,446
Services	28,001	-	168,841
	<u>1,354,657</u>	<u>450,282</u>	<u>1,401,287</u>
<b>COST OF REVENUE</b>			
Products	452,303	349,510	684,904
Services	11,233	-	62,341
	<u>463,536</u>	<u>349,510</u>	<u>747,245</u>
<b>GROSS MARGIN</b>	<u>891,121</u>	<u>100,772</u>	<u>654,042</u>
<b>EXPENSES</b>			
Interest on convertible debentures	149,535	139,794	53,338
Research and development	732,097	1,143,316	1,062,041
Selling, general and administrative	1,056,454	1,688,489	2,133,101
Restructuring charges (recovery)	(2,778)	239,205	-
	<u>1,935,308</u>	<u>3,210,804</u>	<u>3,248,480</u>
<b>LOSS FROM OPERATIONS</b>	<u>(1,044,187)</u>	<u>(3,110,032)</u>	<u>(2,594,438)</u>
<b>OTHER INCOME</b>	56,900	19,412	49,676
<b>NET LOSS FOR THE YEAR</b>	<u>(987,287)</u>	<u>(3,090,620)</u>	<u>(2,544,762)</u>
<b>DEFICIT, BEGINNING OF YEAR</b>	<u>(12,896,039)</u>	<u>(9,805,419)</u>	<u>(7,260,657)</u>
<b>DEFICIT, END OF YEAR</b>	<u>\$ (13,883,326)</u>	<u>\$ (12,896,039)</u>	<u>\$ (9,805,419)</u>
Loss per share	\$ (0.05)	\$ (0.22)	\$ (0.22)

See accompanying notes to the consolidated financial statements.

**TRIANTECHNOLOGIES INC.**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31**  
**(Expressed in Canadian Dollars)**

	1999	1998	1997
<b>OPERATING ACTIVITIES</b>			
Net loss for the year	\$ (987,287)	\$ (3,090,620)	\$ (2,544,762)
Items not requiring cash			
Amortization	37,346	86,154	\$ 148,986
Accretion of liability component of convertible debentures	72,035	62,294	23,400
Restructuring charges (Note 4)	-	75,230	-
	(877,906)	(2,866,942)	(2,372,376)
Changes in operating assets and liabilities (Note 8)	(232,724)	243,466	(21,062)
	(1,110,630)	(2,623,476)	(2,393,438)
<b>FINANCING ACTIVITIES</b>			
Convertible debentures	-	-	775,000
Share capital, net of issue costs	3,074,708	1,657,518	1,535,950
Share subscriptions	(2,866)	(30,784)	16,612
	3,071,842	1,626,734	2,327,562
<b>INVESTING ACTIVITY</b>			
Capital assets	(46,209)	(5,089)	(132,884)
Increase (decrease) in cash and cash equivalents during the year	1,915,003	(1,001,831)	(198,760)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>161,873</b>	<b>1,163,704</b>	<b>1,362,464</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,076,876</b>	<b>\$ 161,873</b>	<b>\$ 1,163,704</b>
<b>SUPPLEMENTAL CASH FLOWS DISCLOSURES</b>			
Interest paid on convertible debentures	\$ 77,500	\$ 77,500	\$ 29,938

See accompanying notes to the consolidated financial statements.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**1. CONTINUING OPERATIONS**

The Company develops, markets, and supports equipment health monitoring and advanced fault detection software solutions, primarily for the semiconductor industry. Its principal product, *ModelWare/RT*, incorporates a multivariate modeling technology to quickly detect subtle shifts in wafer fabrication equipment operation that may lead to equipment downtime or wafer defects.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company incurred a net loss of \$987,287 for the year ended December 31, 1999 (1998 – net loss of \$3,090,620; 1997 – net loss of \$2,544,762). The continuation of the Company as a going concern is dependent upon attaining profitable operations and upon its continuing ability to raise additional financing as required.

The consolidated financial statements do not give effect to adjustments that would be necessary to the carrying value and classification of assets and liabilities should the Company be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, for these financial statements, conform in all material respects with those in the United States, except as outlined in Note 15.

*(a) Consolidation*

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated upon consolidation.

*(b) Foreign exchange*

The Company's functional currency is the Canadian dollar. The accounts of the Company and its subsidiaries are expressed in Canadian dollars. Foreign currency monetary assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates. Other balance sheet items and revenues and expenses are translated at the rates prevailing on the respective transaction dates. Translation gains and losses relating to monetary items are included in income.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(c) *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and for the periods presented. Estimates are used for, but not limited to, accounting for doubtful accounts, accrued restructuring charges, amortization, income taxes, and contingencies. Actual results may differ from those estimates.

(d) *Cash and cash equivalents*

The Company invests certain of its excess cash in cash equivalents which are highly liquid money market instruments with an original maturity of 90 days or less.

(e) *Research and development costs*

Research costs are expensed when incurred. Development costs are capitalized to the extent that recovery of these costs is assured, and are amortized over the life of the related product. No development costs have been capitalized as at December 31, 1999 and 1998.

(f) *Capital assets and amortization*

Capital assets are recorded at cost and amortized over the estimated useful lives of the assets on the following basis:

Computer hardware and software	30% per annum declining balance basis
Furniture and equipment	20% per annum declining balance basis
Leasehold improvements	straight-line over the lesser of the lease term and useful life of the improvements

The Company periodically evaluates the recoverability of its capital assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the year ended December 31, 1999, no impairment of capital assets was identified by the Company. During the year ended December 31, 1998, as part of the Company's restructuring, the Company identified certain capital assets that were impaired (see Note 4).

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(g) *Revenue recognition*

The Company's revenue is derived from the following sources:

(i) *Software and services*

Revenues from software license agreements are recognized upon delivery of software if persuasive evidence of an arrangement exists, collection is probable, the fee is fixed or determinable, and vendor-specific objective evidence exists to allocate the total fee to elements of the arrangement. Vendor-specific objective evidence is typically based on the price charged when an element is sold separately, or, in the case of an element not yet sold separately, the price established by authorized management, if it is probable that the price, once established, will not change before market introduction. Elements included in multiple element arrangements could consist of software products, upgrades, enhancements, or customer support services. If an acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period. The Company's agreements with its customers and resellers do not contain product return rights.

Revenue related to software customization is recognized on a percentage of completion basis, generally based on costs incurred relative to total estimated costs. Provision for estimated losses on contracts is recorded when identifiable. If a transaction includes both license and service elements, license fee revenues are recognized on shipment of the software, provided services do not include significant customization or modification of the base product, and the payment terms for licenses are not subject to acceptance criteria.

Revenue that have been prepared or invoiced but do not yet qualify for recognition under the Company's policies are reflected as deferred revenues.

(ii) *Maintenance and support*

Revenue related to maintenance agreements for supporting and maintaining the Company's products is recognized ratably over the term of the agreement, generally one year.

(iii) *Royalties*

Revenue related to royalties is recognized on the accrual basis, in accordance with the terms of the relevant agreement.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(h) Warranties*

A provision for potential warranty claims is provided for at the time that the sale is recognized, based on warranty terms, and prior experience.

*(i) Stock-based compensation*

The Company provides stock-based compensation to eligible persons under its 1997 Share Incentive Plan (as amended on June 21, 1999) and its Employee Share Ownership Plan, which are described in Note 7(c). When options are granted under this plan, no compensation expense is recognized. Any consideration paid on exercise of options is credited to share capital. When bonus shares are issued under this plan, compensation expense is recognized at the fair market value of the bonus shares issued and an equivalent amount is credited to share capital.

*(j) Per share calculation*

The loss per share has been calculated using the weighted average number of shares outstanding during the year.

*(k) Comparative figures*

Comparative figures have been reclassified, where applicable, to conform to the current year's presentation.

**3. CAPITAL ASSETS**

	1999		1998	
	Cost	Accumulated amortization	Net book Value	Net book Value
Computer hardware and software	\$100,237	\$42,786	\$57,451	\$27,750
Furniture and equipment	29,318	13,010	16,308	18,728
Leasehold improvements	92,088	55,253	36,835	55,253
	\$221,643	\$111,049	\$110,594	\$101,731

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**4. RESTRUCTURING**

During the year ended December 31, 1998, the Company recorded charges of \$239,205 related to the Company's decision to focus on core development activities, to eliminate certain direct sales and marketing activities and to close excess facilities.

Severance costs of \$142,473 included all costs associated with the reduction of management, sales and marketing, and non-core product development staff. The write-off of capital assets of \$75,230 and excess facilities cost of \$21,502 included all costs associated with the closure of related facilities.

The Company completed its restructuring in 1998. In 1999, remaining costs of \$54,847 were paid which resulted in a recovery of restructuring charges of \$2,778, which has been reflected on the consolidated statements of loss and deficit.

**5. LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES**

On August 12, 1997, the Company issued \$775,000 principal amount of unsecured 10% convertible debentures due August 12, 2002, with interest payable semi-annually. Each \$1,000 of debentures is convertible at the option of the holder into 400 common shares (\$2.50 per share) until maturity on August 12, 2002. The Company has the right to require conversion of the debentures into common shares if the common shares of the Company have traded on the Canadian Venture Exchange during any period of 20 consecutive trading days at an average closing price of not less than \$2.50. The Company may also call for redemption of the debentures at any time upon giving 30 days written notice. Debentureholders may exercise their conversion right during such notice period.

On issue, the liability component of the convertible debentures was recorded at \$375,000 (see Note 6). Over the term of the convertible debentures, the liability component will be accreted to the face value of the convertible debentures by the recording of additional interest expense.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**6. EQUITY COMPONENT OF CONVERTIBLE DEBENTURES**

In accordance with the recommendations the Canadian Institute of Chartered Accountants, the convertible debentures issued during the year ended December 31, 1997 were segregated into their liability and equity components. The liability component, representing the value allocated to the liability at inception, was classified as "liability component of convertible debentures". The remaining component, representing the value ascribed to the holders' option to convert the principal balance into common shares and share purchase warrants, was classified in shareholders' equity as "equity component of convertible debentures". These components were measured at their respective fair values at the date the convertible debentures were originally issued, August 12, 1997, as follows:

Liability component of convertible debentures	\$375,000
Equity component of convertible debentures	400,000
	<hr/>
	\$775,000

**7. SHARE CAPITAL**

**Authorized**

100,000,000 common shares without par value

100,000,000 preferred shares without par value

On June 18, 1998, at the Company's annual general meeting, the shareholders approved an increase in authorized capital of the Company by creating 100,000,000 preferred shares without par value. As at December 31, 1999, no preferred shares were issued and outstanding.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**7. SHARE CAPITAL (Continued)**

**Common shares issued and outstanding**

	<u>Number of shares</u>	<u>Amount</u>
Balance at December 31, 1996	11,292,906	\$8,597,597
Issued for cash		
Private placement, net of share issue costs	1,100,000	1,060,000
Share purchase warrants	300,000	300,000
Employee share ownership plan	83,950	131,400
Share Incentive Plan, options	77,000	44,550
	<u>1,560,950</u>	<u>1,535,950</u>
Balance at December 31, 1997	12,853,856	10,133,547
Issued for cash		
Private placements, net of share issue costs	3,607,364	1,452,243
Employee share ownership plan	99,950	118,925
Share Incentive Plan, options	74,000	43,850
Issued for services		
Share Incentive Plan, bonus shares	42,500	42,500
	<u>3,823,814</u>	<u>1,657,518</u>
Balance at December 31, 1998	16,677,670	11,791,065
Issued for cash		
Private placement, net of share issue costs	4,708,250	2,869,803
Share purchase warrants	75,000	33,000
Employee share ownership plan	544,405	158,155
Share Incentive Plan, options	25,000	13,750
	<u>5,352,655</u>	<u>3,074,708</u>
Balance at December 31, 1999	22,030,325	\$14,865,773

*(a) Private placements*

Private placements of securities of the Company, including the Company's Employee Share Ownership Plan (see Note 7(b)), are at not less than the market price as approved by the Canadian Venture Exchange on the trading day prior to the date of the news release announcing the placement and are normally subject to a four-month hold period in British Columbia.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**7. SHARE CAPITAL (Continued)**

*(b) Share purchase warrants*

The number, exercise prices and expiry dates of share purchase warrants, excluding the 515,000 share purchase warrants issued under the Employee Share Ownership Plan (Note 7(c)(ii)) outstanding at December 31, 1999 were as follows:

<u>Number of shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,191,405	\$ 1.30	January 31, 2000
	or \$ 1.45	or January 31, 2001
820,000	\$ 0.40	March 31, 2000
	or \$ 0.60	or March 31, 2001
640,000	\$ 0.50	April 30, 2000
	or \$ 0.75	or April 30, 2001
450,000	\$ 0.60	May 31, 2000
	or \$ 0.90	or May 31, 2001
2,738,250	\$ 0.80	June 15, 2000
	or \$ 1.20	or June 15, 2001
2,562,500	\$ 0.65	September 30, 2000
<u>8,402,155</u>		

*(c) Stock based compensation*

*(i) 1997 Share incentive plan (as amended on June 21, 1999)*

The Company provides for equity participation in the Company by its directors, officers, employees and consultants through the grant of options to purchase common shares of the Company and through the grant of bonuses payable in common shares of the Company, pursuant to its 1997 Share Incentive Plan, as amended on June 21, 1999 (see Note 7(d)). This plan, as approved by the shareholders, authorizes the directors to grant options and bonus shares within the limitations of this plan and subject to the rules of applicable regulatory authorities. The exercise price of options granted under this plan is at not less than fair market value as determined on the date of grant as approved by the Canadian Venture Exchange, and the price of bonus shares is at market.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**7. SHARE CAPITAL (Continued)**

(c) *Stock based compensation (continued)*

(i) *1997 Share incentive plan (as amended on June 21, 1999) (continued)*

On June 21, 1999, at the Company's annual general meeting, the shareholders approved an amendment to the 1997 Share Incentive Plan to increase the maximum aggregate number of common shares issuable pursuant to this plan by 1,159,000 common shares to 3,838,000 common shares of the Company. At December 31, 1999, the Company had available 492,500 shares for future grants of options and 457,500 shares for future grants of bonus shares.

(ii) *Employee share ownership plan*

During the year ended December 31, 1999, the Company completed a private placement of 600,000 units, each unit consisting of one common share and one share purchase warrant, at a price of \$0.25 per unit for proceeds of \$150,000 pursuant to its Employee Share Ownership Plan (the "ESOP") Registration Number 0048 under the Province of British Columbia Employee Investment Act. Of the 600,000 common shares and 600,000 share purchase warrants subscribed for, 515,000 shares and 515,000 share purchase warrants were distributed during the year ended December 31, 1999 for proceeds of \$128,750 and the balance of 85,000 common shares and 85,000 share purchase warrants for share subscriptions of \$21,250, payable by payroll deduction, were subsequently distributed on January 31, 2000. At December 31, 1999, share subscriptions receivable were \$1,879 (1998 - \$7,168) and the 515,000 share purchase warrants remained outstanding. Each share purchase warrant entitles the holder to acquire an additional common share of the Company at a price of \$0.40 per share until March 31, 2000 and at a price of \$0.60 per share until March 31, 2001.

The Province of British Columbia, through its escrow agent, normally holds in escrow for a three-year period shares distributed under the ESOP which are eligible and claimed for a 20% investment tax credits under the Province of British Columbia Employee Investment Act. At December 31, 1999, a total of 220,005 common shares issued pursuant to the ESOP during the years ended December 31, 1999, 1998 and 1997 were held in escrow, of which, 16,800 shares were scheduled for release on January 15, 2000; 52,150 shares on February 28, 2000; 18,150 shares on February 15, 2001; 56,500 shares on February 16, 2001; 24,405 shares on January 29, 2002; and 52,000 shares on February 1, 2002.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**

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**7. SHARE CAPITAL (Continued)**

The following table summarizes the status of options at December 31, 1999 and 1998, and the changes during the years then ended:

Options	December 31, 1999		December 31, 1998	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	1,934,000	\$0.59	1,228,000	\$0.58
Granted	847,500	\$0.82	1,512,500	\$0.74
Exercised	(25,000)	\$0.55	(74,000)	\$0.59
Lapsed	(45,000)	\$0.82	(732,500)	\$0.98
<b>Outstanding, end of year</b>	<b>2,711,500</b>	<b>\$0.66</b>	<b>1,934,000</b>	<b>\$0.59</b>
<b>Exercisable, end of year</b>	<b>2,091,500</b>	<b>\$0.61</b>	<b>1,495,250</b>	<b>\$0.61</b>

The following table summarizes information about options outstanding at December 31, 1999:

Weighted-average remaining years of contractual life	Number of options outstanding	Weighted-average exercise price	Number of options exercisable	Weighted-average exercise price
0.1 years	190,000	\$ 0.68	190,000	\$ 0.68
0.1 years	80,000	1.15	80,000	1.15
2.8 years	1,594,000	0.55	1,594,000	0.55
4.5 years	847,500	0.82	227,500	0.82
<b>3.1 years</b>	<b>2,711,500</b>	<b>\$ 0.66</b>	<b>2,091,500</b>	<b>\$ 0.61</b>

During the year ended December 31, 1998, the exercise price of options for 810,000 shares was amended to \$0.55 per share from exercise prices ranging from \$1.00 per share to \$1.37 per share; the expiry date of options for 369,000 shares was amended to February 22, 2000 from February 22, 1998; and the expiry date of options for 270,000 shares was amended to January 31, 2000 from February 22, 2000.

During the year ended December 31, 1998, the Company granted 42,500 bonus shares to employees at a market price of \$1.00 per share.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
(Expressed in Canadian Dollars)

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**8. CHANGES IN OPERATING ASSETS AND LIABILITIES**

The effect on cash flows from changes in operating assets and liabilities for the years ended December 31 are as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Accounts receivable	\$ 5,720	\$280,511	\$(165,111)
Prepaid expenses and deposits	70,021	(64,033)	-
Accounts payable and accrued liabilities	(245,344)	(65,454)	144,049
Deferred revenue	(5,496)	34,817	-
Accrued restructuring charges	(57,625)	57,625	-
	<u>\$ (232,724)</u>	<u>\$ 243,466</u>	<u>\$ (21,062)</u>

**9. SEGMENTED INFORMATION**

The Company considers that its operations fall principally into one segment - focusing on the development, marketing and support of equipment health monitoring and advanced fault detection software solutions, primarily for the semiconductor industry.

Information related to geographical areas is as follows:

	<u>Year Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Revenue			
Europe	\$ 553,163	\$ 342,221	\$ 186,647
Asia	495,063	-	-
United States	304,721	108,061	1,207,745
Canada	1,710	-	6,895
	<u>\$ 1,354,657</u>	<u>\$ 450,282</u>	<u>\$ 1,401,287</u>

The Company attributes revenue among geographical areas based on the location of its customers. Long-lived assets consist of capital assets, all of which are located in Canada.

**10. INCOME TAXES**

The Company has \$8,601,000 of losses for tax purposes available at various dates until 2006, to be carried forward and applied against future income for tax purposes; \$94,000 of investment tax credits available at various dates until 2007, to be carried forward and applied against future taxes payable; and \$3,437,000 of unutilized scientific research and experimental development expenditures available to reduce future income for tax purposes. The potential future tax benefits relating to these items has not been reflected in these consolidated financial statements.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
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**11. COMMITMENTS**

The aggregate minimum future payments under operating leases at December 31, 1999 are as follows:

2000	\$ 209,000
2001	181,000
2002	54,000

**12. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 1999, the Company paid interest to directors of \$7,500 (1998 - \$7,500; 1997-\$2,900) on convertible debentures with a face value of \$75,000.

**13. FINANCIAL INSTRUMENTS**

*(a) Fair value*

The Company has financial instruments which include cash and cash equivalents, accounts receivable, share subscriptions receivable, deposits, accounts payable and accrued liabilities, the accrued restructuring charges and the liability component of convertible debentures.

The carrying value of cash and cash equivalents, accounts receivable, share subscriptions receivable, deposits, accounts payable and accrued liabilities, and the accrued restructuring charges approximates fair value at December 31, 1999 and 1998. The fair value of the liability component of convertible debentures is not readily determinable.

*(b) Price risk*

The Company undertakes transactions denominated in United States dollars and as such is exposed to price risk due to fluctuations in foreign exchange rates. During the years ended December 31, 1999 - 99.8% (\$1,351,535); December 31, 1998 - 98.5% (\$443,605); and 1997 - 99.5% (\$1,394,036) of the Company's revenue was denominated in United States dollars. At December 31, 1999 - 97.0% (\$112,339); December 31, 1998 - 93.1% (\$113,176); and 1997 - 96.9% (\$389,423) of accounts receivable were denominated in United States dollars.

**TRIANTECHNOLOGIES INC.**  
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**13. FINANCIAL INSTRUMENTS (Continued)**

*(c) Credit risk*

The Company currently derives revenue primarily from customers in the semiconductor industry. These customers are geographically dispersed and the Company closely monitors credit granted to each customer. Therefore, credit risks are considered to be minimal. Revenue for the year ended December 31, 1999 includes \$967,673 (71.4%) from sales to two customers (1998 - \$324,967 (72.2%) from sales to one customer; and 1997 - \$889,646 (63.5%) from sales to two customers).

**14. THE YEAR 2000 ISSUE**

The Year 2000 Issue arises because many computerized systems use two digits rather than four digits to identify year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which 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 the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

**TRIANTECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
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**15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") which, in the case of these financial statements, conforms in all material respects with those in the United States ("U.S. GAAP") except as follows:

(a) *Balance sheet*

	Year ended December 31, 1999	Year ended December 31, 1998
Total liabilities under Canadian GAAP	\$ 905,095	\$ 1,141,525
Accretion of liability component of convertible debentures (d)	(157,729)	(85,694)
<u>Equity component of convertible debentures (d)</u>	<u>400,000</u>	<u>400,000</u>
<u>Total liabilities under U.S. GAAP</u>	<u>\$ 1,147,366</u>	<u>\$ 1,455,831</u>
Shareholders' equity (capital deficiency) under Canadian GAAP	\$ 1,403,697	\$ (675,569)
Accretion of liability component of convertible debentures (d)	157,729	85,694
<u>Equity component of convertible debentures (d)</u>	<u>(400,000)</u>	<u>(400,000)</u>
<u>Shareholders' equity (capital deficiency) under U.S. GAAP</u>	<u>\$ 1,161,426</u>	<u>\$ (989,875)</u>

**TRIANTECHNOLOGIES INC.**  
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**15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**  
(Continued)

(b) *Net loss*

	Year Ended December 31,		
	1999	1998	1997
Net loss under Canadian GAAP	\$ (987,287)	\$ (3,090,620)	\$ (2,544,762)
Accretion of interest on convertible debentures (d)	72,035	62,294	23,400
Additional interest on beneficial conversion feature (d)	-	-	(174,375)
Stock-based compensation (g)	-	-	(74,930)
Consulting expense (g)	(10,475)	(5,237)	-
<b>Net loss under U.S. GAAP</b>	<b>\$ (925,727)</b>	<b>\$ (3,033,563)</b>	<b>\$ (2,770,667)</b>
 Basic and diluted loss per share under U.S. GAAP	 \$ (0.05)	 \$ (0.21)	 \$ (0.24)

(c) *Statement of cash flows*

Under Canadian GAAP, the net loss as reported for the year ended December 31, 1999 includes \$72,035 (1998 - \$62,294; 1997 - \$23,400) of interest expense that was accreted on the convertible debentures. Under U.S. GAAP, the net loss as reported for the year ended December 31, 1997 included \$174,375 in non-cash interest expense and \$74,930 in non-cash compensation expense. These amounts did not require the use of cash and therefore, cash flow from operating activities as reported under both Canadian GAAP and U.S. GAAP is the same.

(d) *Convertible debentures*

Under Canadian GAAP, the convertible debentures issued during the year ended December 31, 1997 have been segregated into their liability and equity components measured at their respective fair values at the date the convertible debentures were issued (see Note 5). Over the term of the convertible debentures, the liability component will be accreted to the face value of the convertible debentures by the recording of additional interest expense. Under U.S. GAAP, in order to comply with the terms of EITF Topic No. D-60, the proceeds from the debt issuance were allocated between the debt and the purchase warrants based on the pro rata fair value of each instrument. During the year ended December 31, 1997, \$174,375 attributable to the pro rata fair value of the share purchase warrants was recorded as additional paid in capital and charged to interest expense.

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**15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**  
**(Continued)**

*(e) Revenue recognition*

Under U.S. GAAP, revenue related the software transactions is recognized in accordance with the American Institute of Certified Public Accountants (“AICPA”) Statement of Position (“SOP”) 97-2, “*Software Revenue Recognition*”, issued October 1997 as amended by SOP 98-4 and 98-9. Revenues from software license agreements are recognized upon delivery of software if persuasive evidence of an arrangement exists, collection is probable, the fee is fixed or determinable, and vendor-specific objective evidence exists to allocate the total fee to elements of the arrangement. Revenue related to service is recognized as the services are performed. Revenue related to the maintenance and support agreements is recognized ratably over the period of the agreement.

Under Canadian GAAP, revenue related to software sales is recognized when the risks and benefits of ownership have been transferred from the seller to the buyer and reasonable assurance exists regarding the measurement of the consideration received and the extent to which goods can be returned. Revenue related to service, and maintenance and support agreements is recognized using the percentage of completion basis, in relation to the work performed, when reasonable assurance exists regarding the measurement of consideration received.

For all periods presented, there is no difference relating to revenue recognized under Canadian and US GAAP.

*(f) Earnings per Share*

Under U.S. GAAP, earnings per share is determined in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 128, “*Earnings per Share*”. The provisions of SFAS 128 did not have any impact on the Company, as under both U.S. and Canadian GAAP, the weighted average shares outstanding is used for the purpose of calculating the basic loss per share. Furthermore, the potential effect of all outstanding convertible debentures, warrants and options is anti-dilutive.

**TRIANTECHNOLOGIES INC.**  
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**15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)**

(g) *Accounting for Stock-based Compensation*

In accordance with the provisions of SFAS No. 123, "Accounting for Stock-based Compensation", the Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based awards to employees, and accordingly does not generally recognize compensation expense. The Company has adopted the disclosure only provisions of SFAS No. 123. Compensation costs related to stock-based awards to non-employees are recognized under U.S. GAAP as an expense in the period incurred. During the year ended December 31, 1998, the Company issued options to individuals other than employees and directors which under SFAS 123 resulted in consulting expense for the year ended December 31, 1999 of \$10,475 (1998 - \$5,237). Under U.S. GAAP, amendments to the terms of options, which extend the expiration date and/or reduce the exercise price, may also result in stock-based compensation expense. During the year ended December 31, 1998, but prior to December 15, 1998, the Company amended certain options which, under U.S. GAAP, resulted in no additional compensation expense. During the year ended December 31, 1997, the Company amended certain options which, under U.S. GAAP, resulted in \$74,930 of additional compensation expense.

Under SFAS No. 123, employee stock options granted and share purchase warrants issued under the Employee Share Purchase Plan are valued at the issuance date using the Black-Scholes valuation model and the resultant compensation cost is recognized ratably over the vesting period. Had compensation cost for these items been determined based on the Black-Scholes value at the issuance dates for awards as prescribed by SFAS No. 123, pro forma net income (loss) and net earnings (loss) per share would have been as follows:

	<u>Year Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net loss			
As reported	\$ (987,287)	\$ (3,090,620)	\$ (2,544,762)
SFAS No. 123 pro forma	(294,776)	(239,567)	(289,678)
	<u>(1,282,063)</u>	<u>(3,330,187)</u>	<u>(2,834,440)</u>
Basic and diluted earnings per share			
As reported	(0.05)	(0.22)	(0.22)
SFAS No. 123 pro forma	(0.01)	(0.02)	(0.02)
	<u>\$ (0.06)</u>	<u>\$ (0.24)</u>	<u>\$ (0.24)</u>

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**15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**  
**(Continued)**

(g) *Accounting for Stock-based Compensation (continued)*

The weighted average Black-Scholes option pricing model value of options granted under the share option plan during the years ended December 31, 1999, 1998 and 1997 were \$0.17, \$0.23, and \$0.34, per share respectively. The fair value for those options was estimated at the date of grant using the following weighted average assumptions:

	<u>Year Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Assumption			
Volatility factor of expected market price of the Company's shares	31%	32%	54%
Dividend yield	0%	0%	0%
Weighted average expected life of stock options (years)	3.1 years	3.4 years	3.2 years
Risk free interest rate	6.42%	6.6%	4.93%

(h) *Product development costs*

Under U.S. GAAP, costs incurred in the development of products are expensed as incurred until the product is established as technologically feasible in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed". Under Canadian GAAP, these costs may be capitalized to the extent that they meet specified criteria for recoverability. For all years presented, there is no difference relating to the treatment of product development costs under Canadian and U.S. GAAP.

(i) *Foreign exchange*

Under Canadian GAAP, the Company includes in income, gains and losses resulting from the translation of the accounts of its foreign subsidiary. Under U.S. GAAP, where an entity's functional currency is a foreign currency, the translation adjustment resulting from the process of translating the entity's financial statements into the reporting currency is reported separately as a component of equity. For all years presented, there is no material difference relating to the translation of the foreign subsidiary's financial statements under Canadian and U.S. GAAP.

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**15. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**  
**(Continued)**

Under Canadian GAAP, the Company includes gains and losses from its foreign currency transactions in the determination of income. Under U.S. GAAP, a change in exchange rates between the functional currency and the currency in which the transaction is denominated results in a transaction gain or loss that is included in income, unless the transactions are designated as effective hedges against foreign currency investments or commitments. For all years presented, there is no difference relating to foreign currency transactions under Canadian and U.S. GAAP.

*(j) Other Accounting Pronouncements*

In March 1998, the AICPA issued SOP 98-1, "*Accounting for Costs of Computer Software Developed or Obtained for Internal Use*". This statement requires capitalization of certain costs of computer software developed or obtained for internal use. The adoption of this statement had no effect on the Company's consolidated financial position or results of operations.

In April 1998, the AICPA issued SOP 98-5, "*Reporting on the Costs of Start-up Activities*". Under this statement, the cost of start-up activities should be expensed as incurred. The adoption of this statement had no effect on the Company's consolidated financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", which establishes accounting and reporting standards for derivative instruments and hedging activities. This statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company will adopt this statement as currently required in its financial statements for the fiscal year 2001, which the Company expects will not have a material effect on its financial position or results of operations.