Business Plan

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Corporate Information

Consequent Technologies, Inc. is incorporated under the laws of British Columbia, Canada, and is a privately held company.
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Consequent: The Name Explained

consequent 1. That which follows, or results from, a cause; a result or natural effect.
2. That which follows from propositions by rational deduction; that which is deduced from reasoning or argumentation; a conclusion, or inference.

Applied Distributed Computing Solutions
The term “Distributed Computing” . . .

IBM has branded it “Grid Computing”

Microsoft embraces it within its web services .NET infrastructure

Sun’s Java based Sun ONE initiative offers another alternative

Some in the industry have coined it “peer to peer computing”

These market leaders are all recognizing the emerging strategic importance of distributed computing technologies to the computing industry. Increasingly, networks will utilize new software technologies that allow distributed computers to be harnessed to perform complex integrated processing tasks in a much more cost effective manner than today’s client-server computing models allow for.

While this technology is still in its infancy today, the ultimate intent is to more efficiently link the many new and different types of client-side computing devices and their applications together with the servers and enterprise data centres which support them. While the market leading companies are paving the way with first generation distributed computing initiatives, Consequent’s mission is the development of best-in-class ‘applied’ distributed computing technologies for specific market niches. Low cost servers that are running Consequent applications will be architecturally positioned between client-side computing devices and enterprise data centres.

The impact of Moore’s Law
Reaching past the PC and embedded devices to servers

Moore’s Law continues to push more and more computing power into smaller and lower cost processing packages, and this has had the effect of not only creating a new class of intelligent client-side computing devices, but also a new class of low cost servers, such as new offerings from Dell, Intel, IBM and Compaq in the $1-2,000 range. These “server appliances” are quickly finding application in corporate environments acting as web, email, print and file servers, and their price/performance value will only continue to improve.

Consequent’s server based distributed computing solutions are being developed for specific market niches where there is a need to bridge different types of client-side computing devices to enterprise data centres with value-added functionality. There are many exciting new application possibilities for low cost servers in the distributed computing paradigm, with high growth potential in many different market segments.
Revenue Model: Products, Licensing, Consulting, and Support

Consequent intends to derive revenues from a diverse range of sources: the sale of Consequent’s server products, the licensing our technologies to 3rd parties, providing customers with supporting engineering services, charging monthly leasing or usage based transactional fees for our products, as well as network management and data processing services.

Please reference the section titled “Targeted Revenue Mix” later on for more details.

Defining Words Used In This Business Plan

“Managed” – Consequent’s low cost distributed server products will be centrally controlled, configured and serviced, allowing groups of distributed servers to “look and feel” like a single large centrally located server.

“Server Based” – Consequent’s products are placed one level up from the client-side computing devices within the computer network architecture. They are in a direct connectivity relationship with them, processing and providing temporary storage of device based data and turning raw data into useful information that is then piped to/from enterprise data centres. Consequent’s products will also handle provisioning of the devices (software configuration and updates).

“Distributed Computing” – The opposite of “centralized” computing. Multiple low cost servers are placed closer to the client-side computing devices themselves and are virtually integrated together to process information in a synchronized and often redundant manner. They act as a replacement for, or an enhancement to, higher cost centralized server solutions (also referred to as “peer to peer” computing).

“Network Edge” – Consequent’s distributed servers exist at the point in the network where local or remote client-side computing devices attach (the “edge”), addressing the need/opportunity to provide network security at this level. Again, all centrally managed.

“Bridge” – By placing a number of low cost distributed servers between client-side computing devices and central data centres, in effect bridging the gap between these devices and the data centres, a number of potential value-added benefits arise: (1) flexibility in the deployment and design of new device networks, (2) lower deployment and operational costs, and (3) less impact and fewer risks associated with modifying or upgrading the data centres to support new devices and their applications.

“Cross Platform Technologies” – Linux and Windows operating systems, Java, J2EE, XML, .NET, and related web services protocols and languages. The key requirements for most customers is multi-vendor, multiple standards support.
Consequent – a value-added bridge in new client-side device networks

Enterprise data centre

Centralized data bases, policies & business rules

Data filtering, aggregation & pre-processing, network edge security, IP enabling, and device management

Low cost distributed servers

Client-side computing devices

PDAs, tablets, terminals, kiosks, POS, embedded controllers, automation

Consequent – a value-added bridge in new client-side device networks
**Historical Technological Advances**  
*Leading to new opportunities*

The introduction of the personal computer (PC) over twenty years ago revolutionized the way that businesses and individuals worked by allowing people to be more productive and efficient. The PC fuelled the development of the local area network (LAN), which in turn allowed people using connected PCs to share data more easily. The proliferation of these PCs and their peripherals created a management problem. Systems Administrators struggled with how to deploy, track, upgrade and maintain the growing number of devices that they were responsible for.

This need spurred the development of enterprise management tools that allowed for centralized control, management and tracking of PCs. As technology has progressed, so has the management capability of these products to the point where today it is becoming possible to plug in a new PC and have it be remotely powered-up, a new OS installed and all the required applications loaded.

In parallel with the development of the PC has been the development of intelligent client-side computing devices. In the simplest sense, a client-side computing device is a small scale PC that is designed for a single specific application, rather than as a platform for general use. These devices typically, though not always, have a less powerful microprocessor, less memory and a less functional operating system. In some applications, the device may actually be a PC that is only used for one application.

The PC has propelled technology advancements that have filtered down into the device space to the point where today many of these devices use high performance microprocessors and large amounts of memory, and use scaled down versions of PC based operating systems like Windows CE, embedded Windows XP and embedded Linux. Everywhere you turn today you can see examples of these devices (e.g. watches, PDAs, cell phones, stereo equipment, household appliances, equipment controllers, remote data monitors, etc).

Similar to the growth of the PC, the growth in the number of client-side computing devices has also created a management and data processing problem. Consequent’s solutions are solving this device management and data processing problem via distributed server based solutions which own the direct relationships with the client-side computing devices themselves while bridging the information divide with corporate data centres.

Whereas the enterprise tool companies have stopped at the deployment and management of PCs, Consequent will take a step beyond and assist with the deployment and management of new client-side computing devices as well as the process of actively turning data from these new platforms into valuable enterprise information. Most organizations find themselves in the position of being data rich, but information poor. Since the purpose of many embedded devices is data collection, the extraction of information is critical.
A Focus on Addressing Niche Opportunities

Consequent’s applied distributed computing solutions will provide an intelligent middle tier within computing networks that will sit between client-side computing devices and enterprise data centres, processing and filtering the raw data, providing network security, and maintaining and supporting the devices themselves. This will allow for the deployment of lower cost devices in different industries, while at the same time offloading many of the data processing and management responsibilities from the enterprise data centres, and at the same time reducing the time and cost associated with client-side computing device maintenance and support.

Consequent’s offerings will be tailored to specific market niches, and will be delivered in concert with a range of partners, including computing device OEMs, systems integrators (SIs), independent software vendors (ISVs), and possibly even private and public network operators, thereby leveraging a wide range of channels into the marketplace. Market leaders such as IBM and Microsoft are creating the basic underlying technologies that will enable the distributed computing revolution, while Consequent will work with device manufacturers and enterprise software companies to build enhanced distributed computing solutions for such sectors as healthcare, manufacturing, distribution and retail environments.

Partnering Strategies

Consequent’s solutions will save customer’s money while helping them embrace and leverage new applications running on next generation computing device platforms throughout their business operations. By effectively negotiating and leveraging strategic partnerships with key device OEMs and specific enterprise software vendors, Consequent can then sell into and penetrate their collective installed customer bases:

Device OEMs - Consequent’s solutions allow device OEMs to offer a far more complete solution to their customers by delivering the missing network components and application features that exist above the device level. By adding Consequent’s low cost distributed server solutions to their product mix, there is far less need for complex data centre integration and support in any given customer engagement, and therefore less impact at these levels of the customer’s organization. In effect, by decoupling the need to “plug in” to the enterprise data centres, device OEM customer engagements can be negotiated, closed and implemented much more efficiently.

Enterprise System Vendors - Consequent’s solutions also allow enterprise system vendors and their customers to easily connect to and manage new device networks, navigate through tricky and often complex cross-platform networking challenges, as well as IP enable previously stand-alone and legacy computing devices. –All of this will be possible without forcing the customer to give up centralized network control and management capabilities. Consequent’s solutions, while physically distributed in nature, are virtually centralized from a management perspective.

As mentioned previously, Consequent is also able to leverage a number of other channels into specific market segments by also working with SIs, ISVs, ISPs, ASPs, and even direct sales to customers where Consequent pulls together the complete solution as the “prime” contractor in the customer relationship.
Consequent’s Value Proposition
A list of company strengths

- Consequent’s team is strong technically while also being very customer focused. The ability to listen carefully to a customer and develop the correct solution, and deliver it on budget, and on time, every time, matters. It will be one of the most important determining factors in the company’s future success.

- Consequent has unique and valuable knowledge of both the client-side computing device market and the transactional enterprise server/data centre market segments. Consequent’s solutions bridge the gap both technologically and from customer and partnering perspectives. Again, this is uncommon in the computing industry and will also be an important determining factor in the company’s future success.

- Consequent’s revenue model permits a much lower entry point that allows a customer or partner to select and implement a properly integrated solution. Consequent’s server licensing can be structured around “concurrent” client-side device loading on the servers (in effect a pay per use system). As networks grow and server applications increase along with the number of client-side devices in use, license fees accruing to Consequent will grow as well. This results in low entry costs for the customer with healthy recurring revenues for Consequent. Initial installation fees will cover the basic cost of the Consequent equipment up front.

- Consequent’s solutions will be scalable and cross-platform, supporting Windows, Linux and Java clients and servers as required by the customer’s applications. This non-trivial technological solution set will be an important differentiator in many customer engagements given the current state of incompatibilities in the computer industry and the dearth of cross-platform solutions vendors, especially in the specialized market segments Consequent will be focusing on.

- Consequent is pulling together and integrating most of the important, related networking functions required to build viable device networks into a clean, simple, cost effective, and scalable managed server based solution. This is important because the alternative to Consequent is pulling together all of the required pieces on a customer-by-customer engagement basis, and struggling with the mix and match technology integration issues that result. The net result is lower deployment risks and reduced costs when a Consequent solution is chosen.

- With a Consequent solution in place, both the client-side device complexity and the impact on the enterprise data centres are potentially reduced. The barriers to a successful customer engagement fall as a result. Lower costs, less impact to the network, while the key issues of security and management are maintained and in many cases improved.

- Consequent’s solutions can also lower the cost of network leasing and transaction processing by providing upgrade paths for existing proprietary devices and networks that could benefit from IP based solutions.
Examples, Examples and More Examples

Intelligent computing devices running networked applications are replacing older stand-alone computers in many industries. Information is the key commodity in a computer network and Consequent’s distributed server based solutions will add significant value in many different applications. The following is a description of computing device technology areas that Consequent may derive revenues from, with example applications:

**General Purpose PCs** - Whether in a corporate branch office, a hospital or a call centre, it is often necessary to ensure that groups of PCs are configured identically. Consequent’s first beta product, a managed PC based client network boot server, eliminates the need for individual PC configuration and management (the hard drives can actually be removed from individual machines), because booting occurs over the network from the Consequent servers.

Example 1: A hospital complex where groups of PCs are required to perform patient data entry and tracking functions. With Consequent’s solution, all PC configuration, application updating, and management is handled elegantly in a secure, centralized manner. It is impossible to corrupt or in any way damage the server images, therefore any individual machine’s configuration will always revert to its prior state after rebooting over the network - system installation, maintenance and support costs are reduced. Downtime is reduced accordingly.
Example 2: A training centre that delivers classes specific to certain applications or operating systems. The same classroom full of PCs is used to deliver different classes. Between each class, each PC must be reconfigured to ensure that only the applications and other tools required for the class are accessible. Consequent's servers will allow an image of the PC for each class to be stored and to prepare for the next class all that is required is for each PC to be rebooted and the appropriate image selected. Downtime is reduced accordingly. This beta product is expected to be both Linux and Windows capable.

**Application specific PCs** - Many applications make use of general purpose PCs dedicated to a specific function such as cash registers and kiosks. Consequent's managed PC based client network boot server also addresses these classes of devices.

Example 1: A restaurant management system makes use of a PC at the cashier, at the hostess station, in the kitchen and in the back office. To best take advantage of the computing power of each station, a Consequent server is deployed to distribute the operating system and application software to each station at PC initialization time, by booting over the network.

Example 2: A government agency conducts driving tests via a group of kiosks located in an office. Each kiosk makes use of a general purpose PC inside of an application specific cabinet. One image of the operating system and application software required to run the kiosk and administer the test is stored on a Consequent server. When each kiosk is started, it boots over the network, simplifying the management and deployment of new software.

**Non-PC based computing devices** - Wherever there are new PDAs, tablets, or other specialized computing devices, there is a need to reduce the cost of network and device installations and their subsequent maintenance and support. Additionally, enterprise data centres often cannot handle high volumes of unfiltered information from these devices without costly upgrades. Consequent’s solutions will target direct “ownership” over the individual devices and will unburden the enterprise data centre.

Example 1: A product distribution and warehousing company installs an automated package tracking system. Their IT and MIS managers will not have to directly provide network edge security, or modify and upgrade their corporate data centre systems to support the new mobile client-side devices because Consequent’s solutions will provide these functions which can then be managed centrally and incorporated into their data centres in a controlled manner.

Example 2: A wireless connectivity company has developed management software that greatly simplifies the task of configuring a PDA to allow it to connect to the Internet through a cell phone. Consequent’s servers can be deployed to distribute the PDA configuration software to PDAs as they are sold in the service provider’s retail outlet. Simply pointing the PDA at the Consequent device will cause the configuration software to be installed and executed and allow for immediate use of the carrier’s data network through an enabled cell phone. The Consequent solution can also track and report on all devices as they are enabled.
**Embedded devices** - Microchips are contained in a huge array of products that look nothing like computers. These devices are often stand-alone in nature and unattended. Many of these products can be networked to improve their utility and value and Consequent’s solutions can become a key value-added component of these networks.

Example 1: A company rents out orange juicer machines to food retailers and derives revenues from the number of oranges squeezed at each store location. Invoices are sent to retailers after in-person monthly audits. By incorporating low-cost micro-controllers into each juicer machine, this company could then be able to leverage Consequent’s solutions to keep track of each machine’s status and use, as well as have Consequent’s servers handle inventory management and demand prediction, on a daily basis, thereby increasing the manageability and profitability of the business.

Example 2: An automotive parts manufacturer attempts to network his factory machines to their data centre and finds that they are overwhelmed with the volume of raw data that ends up flowing into their enterprise systems. They have also had problems linking up a number of different machines because of compatibility issues. By incorporating Consequent’s solutions within their plants, the raw data output by each machine is converted into a common format, processed and filtered, and backed up before being forwarded to the corporate data centres, while at the same time network edge security is fully maintained and enhanced.
Mission, Values and Beliefs

Consequent’s mission is to enable businesses to efficiently distribute and manage networks of servers and their companion client-side computing devices while at the same time enabling them to extract maximum value from the data these devices generate by turning that data into useful information. As an organization, Consequent values and believes the following:

People make the company

   We will engage top people in each area of the company. The commitment, persistence, contribution and leadership of each person enables us to pursue excellence.

We exist for our customers

   Without our customers, we are nothing. We listen to our customers and partners and deliver the support, products and services that they require in order to ensure their success and ultimately our success.

Teamwork produces results

   The value of teamwork cannot be overstated. Extraordinary results are produced when talented individuals are brought together and work as a team.

Technology drives our business

   Technology continues to advance at a rapid rate. We stay abreast of current technology trends and ensure that our products and services creatively leverage and apply new and emerging technologies.

Creativity begins with sharing ideas

   The best solutions come from a free exchange of ideas and information. We all benefit from the perspectives of others.

Nothing comes without risk

   The only thing that you can count on is change. Courage, determination and boldness are required to face new and unknown challenges. We are prepared to push the envelope in our pursuit of success.

The future belongs to us

   We are empowered to make the decisions that will ensure our success well into the future.
Management

The founding principals and management of Consequent have extensive knowledge and experience developing, marketing and selling specialized computer networking solutions to Global 1000 companies. The Consequent team has helped these firms leverage both leading edge client-side computing device technologies as well as related enterprise level transactional data processing solutions. A number of the company principals have also previously founded other successful technology companies, some of which have subsequently been taken public, thereby generating liquidity and positive returns on investment for investors in those businesses.

Derek Spratt, CEO

Mr. Spratt is a founder and past CEO of Intrinsyc Software, Inc., a TSE listed technology firm that provides original equipment manufacturers with software and hardware technologies and supporting engineering services to help them create specialized, networked, and remotely manageable intelligent devices for specific market segments. Intrinsyc has received a number of prestigious awards, including Independent Software Vendor of the Year in 2001 and 2002 by Microsoft, being rated the 4th fastest growing company in Canada by Profit Magazine in 2002, and being one of the 50 fastest growing companies Canada in 2000 and 2001 by Deloitte and Touche.

Prior to Intrinsyc, Mr. Spratt was a founder and senior executive of a number of other private and public Canadian technology companies. Mr. Spratt was a recipient of Business in Vancouver’s “40 under 40” achievement award in 2001 and was also nominated by Ernst & Young in 2002 for their Entrepreneur of the Year award. He holds a Bachelor of Applied Science, Electrical, from Queens University, graduated in 1983, and is a Professional Engineer.

Mike Lukas, President & CTO

Mr. Lukas is a founder and past VP of Ernex Marketing Technologies (formerly CSI Credit Systems International Inc.), a loyalty marketing company that creates loyalty programs for businesses in retail, hospitality, restaurants, entertainment and leisure. Loyalty marketing is a well-known concept, since the introduction of frequent flyer programs. Mr. Lukas lead the development of all of Ernex’s client-side device and server-side hardware and software development initiatives for their Point of Sale and Parking system transaction processing solutions, and successfully transitioned CSI into becoming North America’s leading customer loyalty card transaction processor. Ernex Marketing Technologies, now a wholly owned subsidiary of the Royal Bank of Canada, has clients such as Nike, Radio Shack, Eddie Bauer, and Keg Restaurants.

In 1999, the Vancouver Sun, in a lead business section article on the RBC acquisition of CSI, included a quote that referred to Mr. Lukas as one of the smartest technology entrepreneurs in Western Canada. Prior to Ernex, Mr. Lukas was a software developer for Integra Systems, a POS terminal developer. He holds a Bachelor of Applied Science, Computing, from SFU, graduated in 1989, and is a Professional Engineer.
**Harold Gutovich**, Director of Business Development

Mr. Gutovich is a seasoned sales management professional with more than 20 years of wide-ranging experience in various Canadian technology companies operating in a number of different market segments, including BCE Emergis/eHealth Solutions, Ixtal Blast Technology, Spacelink Communications, Sydney Development Corp, and MCC Powers/Mark Controls. He spent the last 10 years developing the Western Canadian market as head of the BC operations for BCE Emergis/eHealth Solutions. His successful track record there included building revenues to $5 million annually via the development of numerous highly effective programs and strategies within the organization to ensure the provision of high quality, cost-effective electronic healthcare services to BCE’s clients.

In addition to completing various courses relating to Canadian securities and finance over the years, Harold attended the University of Manitoba where he majored in economics and psychology for a 3 year period from 1976–78. In 2001, he completed a one-year continuing studies degree program in E-Business at UBC.

**Greg Corcoran**, Director of Open Source Solutions

Mr. Corcoran is a 15-year high technology veteran and has spent the last few years of his career focusing on Linux and open source software. He has worked for technology companies in various capacities and has proven that he has the ability to innovate new products and build asset value. He has worked for Dorigo Systems, Andronic Devices, Q-Media Software, Kalman Technologies (now Image Power), Jenosys Technologies, Intrinsyc Software and AudioMonster Online.

In 1996, Mr. Corcoran founded Spidex Technologies which successfully developed and sold web server technology for the Microsoft Windows CE operating system to Intrinsyc Software. This web server technology allowed Intrinsyc to establish itself as a leader in the Windows CE market space and also engaged Intrinsyc with its initial relationship with Microsoft. The web server product won industry recognition and Mr. Corcoran has been published in trade journals including the CE Tech Journal, a Microsoft sponsored trade journal.

Mr. Corcoran was founder and CEO of AudioMonster Online which was taken public on the Nasdaq OTC via a reverse merger in 2000. Subsequent to this transaction, Mr. Corcoran resumed his role with Spidex Technologies and continued with the development of Linux and open source software solution up until the point that he joined Consequent.
David E. De Witt, Corporate Secretary

Mr. De Witt is a founder of, and currently with, Pacific Source Capital Ltd., a private venture capital company located in Vancouver, British Columbia. In conjunction with his law practice and subsequent involvement in the raising of venture capital, Mr. De Witt has over 20 years experience financing public and private companies and structuring and negotiating major transactions in the mining, bio-technology, software and telecommunications industries. Mr. De Witt been involved with, among others, the following companies:

Arequipa Resources Ltd. Mr. De Witt was a Director and Corporate Secretary of which Company was taken over by Barrick Gold Corporation for approximately $1.1 billion in 1997. Arequipa, originally listed on the Vancouver Stock Exchange, before graduating to a listing on the Toronto Stock Exchange prior to its takeover by Barrick.

Neurovir Inc., a biotechnology Company originating from the University of British Columbia, merged with a leading German biotechnology company called Medigene AG for a valuation of US$40 million. Mr. De Witt was a Director of Neurovir and an original financier of Neurovir and involved in the raising of an initial $14 million in capital for Neurovir as well as assisting Neurovir in re-domiciling to San Diego, U.S.A.

Arkon Networks Inc., based in Richmond, BC, is a research and design house serving major brand name customers in the consumer electronics industry. Arkon was founded in 1993 by Edmund Ho who is widely known in the consumer telecommunications industry as the pioneer of the 900 MHz cordless telephone. Arkon has worked with major customers including Philips, Siemens, Alcatel, Pacific Bell, Sanyo and Vtech. Arkon is currently shifting its focus from a design house to a product development company and has designed products in several areas: 2.4GHz WDCT and 1.8 GHz DECT cordless telephones and wireless conferencing telephones. Arkon has also been designated the first “Official Philips Design House” in North America.

Ascalade Communications Holdings Ltd., based in Hong Kong designs, develops and manufactures cordless telephony products for global consumer and enterprise markets. Ascalade is a private company which was founded in 2002 by the principals of Arkon Networks and Karce International Holdings LTD of Hong Kong. Karce is an electronic products manufacturer whose clients include VTech, Sharp and Casio. The Company, whose opening year revenues will be approximately US$15 million, has secured contracts to be initiated in 2003 worth over US$60 million.

Mr. De Witt graduated with a Bachelor of Commerce degree from UBC in 1975, and a Bachelor of Law degree, also from UBC, in 1978. He joined the VSE in the Listings Department where he was the first lawyer to be hired by the venture exchange. Mr. De Witt then moved into private practice where he specialized in corporate and securities law until his retirement from the practice of law in January 1997.
Marketing Plan

The last 3 years have been difficult ones for many technology companies, especially start-ups. However, the Consequent principals feel that now is an ideal time to launch this new business for the following reasons:

**Availability of key management and technical staff** - Now is perhaps the best time in the history of the technology market to cost-effectively leverage available technical staff and management to build the foundations of Consequent’s business.

**Timing of the business sector recovery** - While there are lingering fears that waning consumer confidence will create a double-bounce recession, most economists are predicting a steady upswing in revenues and profits for North American businesses, while consumers may become increasingly affected by unemployment figures, driven primarily by corporations reducing their labour costs with new rounds of layoffs in 2003. This would be the reverse of the last two years, where consumer confidence remained high while businesses in general fared poorly.

With this economic forecast scenario, Consequent can build strong, profitable business foundations servicing industries where there is a combined customer focus on increased profits and revenue growth. Projecting past 2005, Consequent can build a very high growth business in the midst of the expected general economic recovery cycle.

**New computing device technology adoption** - In the last two years businesses in many sectors have started to successfully leverage new types of computing devices, including derivatives of common PDA platforms based on the Palm Pilot and PocketPC designs. Applications in health care, manufacturing, distribution and warehousing, retail, and mobile workforce automation are now in common use. These new computing devices will continue to fall in price and improve in features and performance as the underlying hardware and software technologies advance.

With the adoption of new 300mm silicon microchip fabrication lines and the continued reductions in the scale of transistors, “systems on a chip” containing such integrated functions as complete cellular phones, will be possible within the next few years, at very low cost. Harnessing this power and building networks that can adapt to an explosion of new devices connecting into enterprise data centres is the challenge and the opportunity facing Consequent.

**New server technology adoption** - When most people think of servers, they think about large, expensive, centralized computer systems that are complex and difficult to maintain. With today’s advances in microchips and disk drives, it is now possible to build multi-processor servers, with more than a terabyte of storage in a box less than 2” high, 19” wide and 20” deep, and for only a few thousand dollars. An Intel 2Ghz CPU is only US$69 today. A standard 19” rack in an equipment room can contain as many as 50 of these servers together. The hardware is clearly becoming commoditized with the value resting more and more on innovative software solutions for specific applications.
Within a few more years, both the price and the performance of new types of low cost, small form factor “server appliances” will have reached levels where they can be deployed practically anywhere, and in any quantity required by new distributed network designs. Consequent expects its solutions to be propelled into the market by these powerful economic and performance factors. Consequent will focus on software technologies, rather than hardware technologies, as the primary corporate intellectual property investment.

**C-Commerce is evolving** - Collaborative Commerce, the linking of business supply chains together to maximize the efficiency of planning, ordering, tracking and controlling the movement of materials and inventories, is starting to come of age, after an over-promoted start during the “.com” era. Rather than vast, public trading networks, suppliers are starting to leverage open-standards in the pursuit of contained, semi-private networks that link together their business partners to accomplish shared goals. This is part of the Peer to Peer (P2P) computing movement where no one central data centre or computer system contains all of the data and transactional processing. Consequent’s server solutions can be successfully positioned to help vendors build private, distributed c-commerce networks in niche markets.

**Distributed / Peer to Peer (P2P) computing** - Faster and cheaper CPUs, ‘systems on a chip’, unlimited network bandwidth – these are the unrelenting dynamics in the technology sector. Within 5 years, true distributed computing, rather than traditional client-server computing is expected to emerge as the dominant network design philosophy. By example, Microsoft’s .NET web services are a first generation P2P solution. As computing applications become networked, and in the process applications become distributed, the data handling and processing will be managed by increasingly distributed devices and servers.

Consequent’s founders believe that there will continue to be an explosion in the number of types of dedicated computing devices in use, supplanting the venerable PC. But all of this will drive a new type of network building block into reality – the specialized, distributed ’mid-tier’ servers that will help glue these networks together.
Market Analysis

Consequent is continuing to research marketing data for specific industry segments that it intends to target for its initial product and service offerings. Consequent’s solutions fall under the general category of Intel x86 based servers but Consequent’s opportunities touch on many interrelated segments of the technology sector, such as the use of PCs and PDAs in conjunction with transactional processing solutions at the data centre level.

**General Technology Sector** - Most analysts are now pegging the general technology sector growth at 0-5% in 2003 and 3-10% in 2004, with a solid recovery including higher rates of compounded growth occurring in 2005 onwards. IT technology purchases by large Fortune 500 companies are expected to be general flat in 2003 while small to mid sized firms will lead the investment into newer technologies during this period of overall slow growth.

**Servers** - For the overall server market, of which 88% are Intel x86 based servers, IDC estimates solid growth in the low-end servers segment this year. Geographically, the US and emerging markets in Asia-Pacific are showing the most promising growth prospects, with Latin America, Europe and Japan growth stalled. IDC predicts that the server market will see compound annual growth rate of 3% over the next five years, representing US$63.4 billion in total revenues for the industry in 2006. It says the Linux market will triple to US$6.5 billion by then, with Microsoft at US$19 billion, up $5 billion, with RISC/Unix based systems at $27.7 billion.

**PCs** - Merrill Lynch is projecting PC sales this year and next, with unit growth at minus 3%, for a total of 125 million PCs, implying a 9% decline in revenue since average unit prices are expected to be down roughly 6% year-over-year. Merrill projects that Europe will be the worst market, off 10.8%, with Japan running a close second, off 8.3%. Merrill now puts next year's PCs growth at 10%, or 137 million PCs.

**Internet Appliances** - In-Stat/MDR predicts that Internet appliance sales will grow to $11.3 billion US in 2005. Since 1997, the number of PCs sold for Internet access has been overtaken by the purchase of smart Internet devices such as web tablets, set-top boxes and web-enabled phones.
**Market Strategy**

To close its first customer engagements, Consequent is both employing a direct sales / Internet marketing approach as well as an indirect approach in partnership with device OEMs where there is already a proven installed customer base to leverage. Product distribution companies such as Avnet and Pioneer Standard, who supply the raw hardware server chassis and components to Consequent, will become ideal potential channel partners for Consequent’s standard product offerings as they emerge from their development cycles over the next 12-18 months.

Consequent’s business model, as a hybrid product sales and engineering services revenue mix, is ideally suited to fostering focused and successful internal development on new products, as the customer relationship continues to expose Consequent’s developers to market dynamics, challenges and real-world opportunities. By limiting the depth and scope of Consequent’s initial product offerings, and focusing on adding additional value via engineering services engagements, Consequent’s product line depth and breadth will build over time without undue early stage development risks or costs.

Consequent will support the marketing of its products and services with an underlying product innovation concept – the $50,000/3 month rule. Any new product development idea or initiative will be tested with real-world customer interactions after a maximum of $50,000, or 3 months, have been invested by key development staff members on any new concept.
Targeted Revenue Mix

In the current challenging economic times it is imperative that Consequent leverage a broad source of revenues from its customer engagements, in order to pull forward revenues and corporate profitability as quickly as possible. However, best practices in the technology sector require that financial models contain a recurring revenue element. Recurring revenue implies an on-going relationship with the customer in the form of per-unit technology licensing and/or transactional fees for managing the customer’s networks and data processing tasks.

Consequent’s financial forecasting models are primarily based on a combination of hourly engineering services (making up >50% of revenues for the first few years of operation), and follow-on licensing and product sales. Consequent will identify customer opportunities, and position itself to deliver solutions that include as many standard software and hardware components as possible while incorporating any required custom application development work and specific product features, in an engineering services related capacity.

Consequent’s financial models and go-to-market strategy includes the following revenue elements:

1. Up front network design consulting/engineering services
2. Non-recurring engineering charges for any custom products developed for customers, such as selling a custom product to an OEM who in turn bundles that product with their own network offerings
3. Volume production of standard or customized products for specific customers
4. Licensing fees on a per unit basis for any customized products not manufactured by Consequent in volume production
5. Web based direct sales of standard products (lead generation)
6. Product and network installation fees
7. Monthly operating fees
8. Support contracts
9. Click fees for transactions
Financial Projections

The Company expects to have its first revenues within 6 months after opening its offices, from initial customer engagements. Total revenues for 2003 are expected to be in the range of a few hundred thousand dollars with modest gross margins, as the focus will be on developing new customer and strategic partnership reference accounts.

2004 is expected to be the first year of true commercial operations after the first year of proving up the product concepts and commercializing the resulting products and adding new product features based on customer feedback from field trials, with more than $1M in total sales.

By 2005, the company will have reached critical mass with its corporate brand, key customer accounts and strategic alliances in place, a sales and marketing focus to compliment the engineering development and services groups, and will expect to achieve $3-5M in sales on a sustainably profitable basis.
Technology Licensing Agreements

In order to accelerate Consequent’s product development initiatives and its strategic business objectives, Consequent intends to enter into licensing and cross-licensing agreements with a number of technology vendors involving the incorporation of related technologies into either company’s products when it is strategically advantageous to do so. For instance, Consequent does not intend to develop client-side device provisioning software where possible, as there are a number of existing solutions available in the market for various client-side device types and operating systems. Here are a few potential examples of software vendor licensing opportunities:

**Intrinsyc Software** ([www.intrinsyc.com](http://www.intrinsyc.com))

Intrinsyc has technologies and experience with Intel RISC based Windows CE and Linux client-side devices, and has developed CerfWorks, a client-side computing device provisioning and management technology. Intrinsyc’s CerfWorks application is designed to run on x86 Windows servers with an associated client-side application component. Intrinsyc focuses on providing technologies and engineering services to OEMs who are building next-generation client-side computing devices.

Consequent may negotiate a licensing agreement with Intrinsyc for its CerfWorks device management solutions for the management of client-side computing devices running Windows CE. This technology could possibly be leveraged by Consequent for the management of its own server appliances as well as the management of Linux client-side devices. Consequent could also propose that its server solutions become a platform for Intrinsyc to leverage in the deployment of its CerfWorks device management solutions. Collectively, either party could bring the other into customer engagements for the facilitation of joint solutions in the intelligent connected device market.

**VenturCom** ([www.vci.com](http://www.vci.com))

VenturCom has technologies and experience with x86 based Windows 2000 and XP devices, and has developed BXP, a computing device/PC remote boot technology. VenturCom’s BXP application is designed to run on x86 Windows servers. VenturCom focuses on providing technologies and engineering services to OEMs who are building next-generation computing devices and servers.

Consequent may negotiate a licensing agreement with VenturCom for its BXP solution. This technology would then be used by Consequent in some of its server product offerings for the provisioning of x86 PC based computer remote booting in various market segments. The BXP technology may also be integrated into Consequent’s own computing device management solutions and be used to boot Consequent servers in specific applications. Consequent could then position its server solutions as a logical platform for VenturCom to leverage in the deployment of its BXP solutions. Collectively, either party could bring the other into customer engagements for the facilitation of joint solutions in the intelligent connected device market.
Other Potential Strategic Relationships

In addition to VenturCom and Intrinsyc, there are a number of other technology licensing and strategic partnering relationships that may be leveragable by Consequent in the delivery of its server based solutions into various market segments.

**emWare** ([www.emware.com](http://www.emware.com))

emWare is a provider of remote device management solutions. emWare has historically focussed on the development of software components that they either sell or license to an OEM who then integrates them into their product. emWare also provides custom integration services that help OEMs leverage emWare components. EmWare has recently introduced a new product, emConnect Services, that can be hosted by emWare, a company who has integrated emWare’s products or a third party ASP. The emConnect Services product and its associated device software facilitate collection of data and execution of remote diagnostics.

**AvantGo** ([www.avantgo.com](http://www.avantgo.com))

AvantGo provides mobile enterprise solutions. These solutions allow computing device users (Palm, PocketPC, RIM Blackberry) to seamlessly connect to corporate networks to exchange data. AvantGo focuses on Sales Force Automation, Field Force Automation and Supply Chain Management. All of AvantGo’s solutions revolve around a network of mobile users carrying a PDA like computing device to automate the collection of data.

AvantGo provides a software based server product (AvantGo M-Business Server) that manages the communications between each device and the corporate network. The AvantGo solutions do not involve provisioning those devices with OS or applications nor the active processing of the data collected by those devices. Should Consequent choose to pursue the wireless PDA market, AvantGo would be a logical partner. Either Consequent could license AvantGo's client and server software and build around it or Consequent could license its technology to AvantGo.
Espial (www.espial.com)

Espial is a Canadian company that has a considerable investment in embedded Java based software and solutions. They have worked aggressively to have their components integrated with many embedded devices. Much like Intrinsyc, their software components (Espial Suite) are building blocks used by OEMs when developing a product.

Espial has also developed a service provisioning solution. This Java based server solution allows a service provider (e.g., a cable company or a wireless communications company) to easily add and deliver value-added services to their subscribers. Espial DeviceServer allows for the management of users, devices, and services and permits the operator to create rules that enable a user of a specific device to access a specified service. A service can be a new television channel, an Internet application (e.g., online banking) or a game (the DeviceServer model doesn’t care what the service is). The solution also tracks access to services to allow the operator to bill the user for any value-added services that were accessed.

Lanovation (www.lanovation.com)

Lanovation focuses their efforts in two areas. The first is software provisioning for Windows based networks (Prisim). They offer both a complete standalone product as well as extensions that plug into the well known enterprise management products. The other area of focus is in online monitoring and control of remote equipment (Radiem). Lanovation has a Windows CE based device agent that communicates with a Windows 2000 based server. The system allows for real-time data collection, analysis, and alerting. All of the collected data is stored in a central database that allows for easy reporting.

In addition to selling Radiem, Lanovation operates a data centre where they will operate Radiem on behalf of a customer for a monthly per device fee. This appears to be a small part of their business. Their primary focus is on technology development.

Computer Associates (www.cai.com)

Hewlet Packard (www.openview.com)

IBM (www.tivoli.com)

LANDesk Software Inc. (www.landesk.com)

All of the above companies market enterprise management products. These products allow for the management of large scale deployments of PCs, peripherals and network equipment. Some of these products also include options to integrate mobile devices.
Pioneer Standard (www.pios.com)

Pioneer is a $2.3 billion broad-line distributor of electronic components and computer systems for leading manufacturers. Striving to be the preferred strategic link between its suppliers and customers, they have a well-established reputation for working collaboratively; creating unique solutions to meet the rapidly changing needs of the markets they serve. Pioneer would potentially be an excellent distribution channel for Consequent – company management already has prior working relationships with this firm to potentially leverage.

Avnet (www.avnet.com)

Avnet, Inc., with fiscal 2002 sales of $8.9 billion, is the world's largest distributor of semiconductors, interconnect, passive and electromechanical components, embedded systems and computer products from the world's leading manufacturers. Serving customers in 63 countries, Avnet also delivers services such as inventory management, supply-chain optimization, bill-of-materials analysis, systems integration and engineering design assistance. Avnet would potentially be an excellent distribution channel for Consequent – company management already have prior working relationships with this firm to potentially leverage.

Potential Competition

At the moment, most of Consequent’s potential business competition exists in the form of independent systems integrators (SIs) who are delivering customized solutions into various market segments. There is an opportunity to partner with some of these firms as well as compete with them for market share.

Every company that Consequent elects to partner with, or finds potential synergies with, because of technology fit issues and opportunities, may also turn into potential competitors, as any of these other companies may elect to modify their business strategies in the future. Competition may result as an attempt by any of these companies, or other entrants into this market, to more aggressively vertically integrate their solutions offerings, or to enter into new markets, or by the acquisition of new technologies and capabilities over the course of time.
Funding Requirements

Consequent projects a need for approx $500,000 from the current seed round financing to carry it through the next 12 months of operations. Additional financing from alternative sources during this period may take the form of various government grant and subsidy programs that are available to private Canadian technology firms who are engaged in product and market development activities, as well as potentially a small amount of debt for shares for professional services provided by third parties. Management estimates a breakdown of the following based on $1M in capital raised which would cover the first 18-24 months of operations:

- Capital Equipment: $100,000
- Sales & Marketing: $300,000
- Research & Development: $400,000
- General & Administrative: $150,000
- Working Capital: $50,000+

Business Objectives

The following highlights the current and near term business objectives.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Select professional services firms and recruit initial management/staff</td>
<td>Done</td>
</tr>
<tr>
<td>Open offices, build out infrastructure, develop initial corporate collateral materials and launch business operations</td>
<td>Done</td>
</tr>
<tr>
<td>Close required financing rounds of funding for the next 18 months</td>
<td>Feb, 2003</td>
</tr>
<tr>
<td>Launch first product into the market, customer interaction/feedback</td>
<td>Apr, 2003</td>
</tr>
<tr>
<td>Sign up initial channel partners</td>
<td>Jun, 2003</td>
</tr>
</tbody>
</table>

Additionally, the Company expects to enter into a new strategic partnership, in conjunction with a new customer relationship, in a new market segment, approximately once each quarter during the next 12-15 months. This will be done in order to fully engage the market in a customer focused product and technology development strategy with the intent of entering 2004 with both a maturing technology base and a fundamentally better understanding of the market dynamics and individual segment opportunities from which to develop further in 2004 onwards.
Capitalization Structure

Consequent has been incorporated with a single class of shares in the Company – common voting shares. It is intended that all equity financings in the first few years of operation be structured as common share issuances with ½ purchase share warrants at a 30% premium to the underlying unit share price, with an 18 month expiration.

As co-founders of Consequent, Mr. Spratt and Mr. Lukas have been issued 1,000,000 common shares each, pre-money, effectively setting the incorporation valuation at $1M. These shares are in consideration for their commitment to found and build the company, and otherwise bypass other potential business opportunities.

Mr. Spratt’s and Mr. Lukas’s ongoing compensation will not be paid fully in cash in 2003 as it has been effectively offset by additional shares being issued to the founders, thereby bringing the total founders shares issued to 1,596,000 for Mr. Spratt and 1,272,000 for Mr. Lukas based on their estimated relative time contributions in lieu of cash compensation. Some vendors may also participate in a debt-for-shares arrangement such as key consultants, service providers, advisors or directors in 2003. This may be done when possible to reduce cash outlays in the early days of the Company’s operations.

A stock option pool will be set aside for issuance on an annual basis at the AGM, equal to 20% of the then current number of issued and outstanding shares in the company. Stock options will be issued at an exercise price equal to the then current private equity financing share price, currently at $0.50 per share. At the beginning of the first year of operation, 1,000,000 options have been set aside for issuance, with 70% issueable to directors and officers of the Company, and 30% to general non-executive staff. In subsequent years the ratio is expected to be set at 50%/50%.

Mr. Gutovich and Mr. Corcoran have each been issued shares and options to secure their commitment to the company. The shares and options vest over a three year period, with the initial grant at the end of the first year.

<table>
<thead>
<tr>
<th>Type</th>
<th>Date</th>
<th>Number</th>
<th>Price</th>
<th>Consideration</th>
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<tr>
<td>Founder’s(1)</td>
<td>Dec-Feb/02</td>
<td>3,268,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Seed Round(2)</td>
<td>Feb/03</td>
<td>Approx. 2,000,000</td>
<td>$0.50</td>
<td>Approx. $1,000,000</td>
</tr>
<tr>
<td>Stock Option Plan(3)</td>
<td>Feb/03</td>
<td>200,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fully Diluted</td>
<td></td>
<td>5,468,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Capitalization Table as of February 20, 2003

(1) 2,000,000 founders shares were split evenly at the date of incorporation between Mr. Spratt and Mr. Lukas, with an additional 868,000 issued as a result of further salary and expenses deferrals over the first 15 months of business operations, nominally converted to shares, the remainder relates to issuances to other management team members, with 3 year escrow terms.
(2) Seed “friends and family” round
(3) Initial employee stock options have been granted at $0.50, with 3 year standard vesting terms
Appendix A – Client Server News Article, October 18, 2002

So How Come the New Economy Bombed
by Maureen O’Gara

Well, it seems it wasn't just God's work smiting - like Sodom and Gomorra - the insufferably stupid, vapid and hollow ideas that flourished under the New Economy's brief sojourn and the insufferably greedy and undeserving people who went along with them that ultimately did the New Economy in. Nope.

As comforting as that thought might be, it turns out it might have been the architecture.

Tim Negris, the guy who coined the phrase "thin client" when he was a VP at Oracle, which was before he was a VP at IBM Software, and sat out the Internet bubble thinking, and putting his money into real estate - right away an indication that he's smart - figures the Internet - and with it the New Economy - tripped over its own shoelaces because it was based on an incarnation of client/server technology when it should have been peer-to-peer.

If it had been peer-to-peer, or if it used the newfangled Network Business Model that Tim calls "Peer Services Computing," the New Economists wouldn't have needed all that money to spend buying Sun servers, whose ROI was out to hereeee, and pressured them into trying to get lots of traffic in an impossibly short period of time at high enough fees to pay for all the fancy technology.

There was a basic economic disconnect between the client/server model and the Internet.

Client/server widgetry is Old Economy overkill, Tim says, wasting a thousand trillion CPU cycles, one hundred trillion bytes of memory and ten thousand trillion bytes of disk space every second of every day.

Tim compares the New Economy to the Afghan economy and calls it a "chimerical abstraction projected onto a lawless and primitive territory." Client/server didn't so much kill the New Economy as keep it from being born, he says, forcing it into old-style restrictions like consolidating data on centralized database servers - an article of client/server faith that didn't work for the New Economy. Like just who exactly owned the data in those big database servers?

P2P or a "peer grid," on the other hand, seems to be just the ticket. It offers equal or proportionate direct technology cost-sharing among the participants - costs are directly tied to need and the widgetry is relatively cheap - distributed workload sharing across participating systems and owner-controlled information visibility, security, privacy and use.

Of course, all the pieces needed to build Peer Services Computing aren't quite here yet. Web services, for instances, the latest identity crisis-prone techno craze, are currently conceived of as a one-way street rather than as something that will go out and actively round up consumers. Peer Services, Tim says, are active services and consuming and providing are flip sides of the same coin.
Peer Services - for reasons of "invertible security," control, efficiency and flexibility - need some data stored and managed privately on participating peers and other data aggregated on the operator's system, also technically a peer, a situation that will require a new range of information management capabilities that don't exist yet.

They will need, for instance, the kind of data management that can separate out the metadata from the data itself across systems and a singular central set of data definitions and XML structures so Peer Services apps can function properly. And then, since the data needs to be live and capable of advertising itself, describing itself and authorizing itself, it will need new facilities for distributed transactional metadata that allow searching and selecting, say, to be done in a safe shared fashion, which introduces the idea of meta-metadata or data about data about data.