

Special Situations Update

Mercury Scheduling Systems, (MRY : VSE : \$1.32 : Issued 14.4M) located in Vancouver, BC, is a software development and marketing company. Founded in 1982, MRY has a suite of crew scheduling products for the airline industry.

Crew scheduling is a complex task that requires the consideration of optimally pairing flights to and from destinations, complicated legal and union regulations (which differ by jurisdiction), and flight preferences based on seniority. MRY's two flight scheduling products Nova (for larger airlines) and Northstar (for smaller airlines) take into consideration these numerous variables in coming up with a monthly schedule. An efficient crew scheduling system can have several advantages for an airline in cost reduction from increased productivity, reduced staff requirements, and employee morale. Crew costs are estimated to be 13-15% of an airlines total expenses, which is comparable to fuel costs.

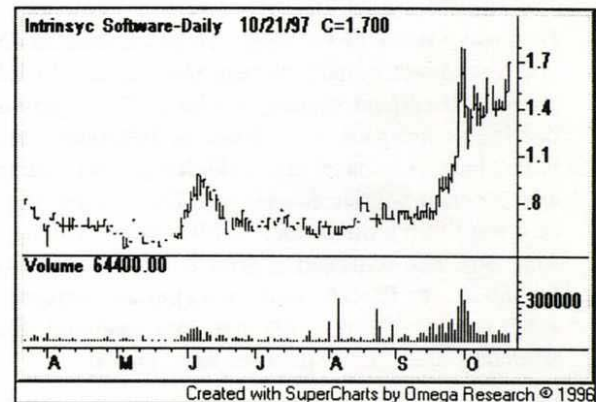
MRY has a third product due for release in the Spring of 1998 named Magellan. It is a "day of operations" crew tracking system. The system responds to crew scheduling problems and significantly reduces disruption costs, including weather delays, which may make the crew legally ineligible to fly, or illness. Magellan has been developed with state of the art object oriented programming tools. The head of the research and development team also led the development of the Radarsat Satellite Mission Planning and Control System, for MacDonald Dettwiler.

MRY has over 20 customers including KLM, British Airways, and Maersk Air. It has already pre-sold its first Magellan system to Maersk Data, which has also agreed to be a distributor of MRY's products. Airline purchasers familiar with the industry indicated that MRY had the most modern and user friendly products available, was price competitive, and had a good chance of establishing itself as the industry standard in this \$475.0M industry.

In f97 (year end is April 30), MRY had revenues of \$1.2M and a net loss of \$0.13/share. We are fore-

casting moderate growth and improvement in earnings for this fiscal year. However, we are more encouraged by the industry feedback that we have received for the new Magellan product to be released in the Spring. Furthermore, Magellan is a bigger ticket item than MRY's existing suite of products and complimentary in nature, which will increase demand for existing products.

We believe MRY has a sound business model which involves a one time licensing fee for products and a monthly service fee, which results in a recurring revenue that will grow with its customer base. With a reasonable chance of becoming a market leader in airline crew scheduling, and a market capitalization of under \$20.0M, we rate MRY as a **SPECULATIVE BUY for risk tolerant investors** looking for long term capital appreciation.



Intrinsyc Software (ICS : VSE : \$1.70: Issued 17.3M) is a software tools development company. ICS develops and sells solutions based software that assists Windows programmers in programming for embedded electronic devices (alternatively called Windows CE).

ICS attended the Embedded Systems Conference West (ESCW) from September 30—October 2, at which Microsoft introduced Windows CE 2.0 and its offensive for "Windows Everywhere" technology into consumer and commercial electronics markets. ICS was well supported by, and represented in, Mi

Microsoft's literature at the conference, during which ICS announced that it was cooperating with Microsoft as a "strategic affiliate". More partnerships and agreements are expected to emanate from the conference.

Further ratification of the technology has come from yesterday's news release in which ICS announced that it had appointed Ron Erickson to its Board of Directors. Mr. Erickson was formerly the chairman, vice chairman, president, and CEO of Egghead Software.

ICS has a free trading float of 5.4M shares, 5.7M shares are performance escrowed shares and 4.9M shares will come free trading between February and August 1998 (prices range from \$0.40-0.60), for a total shares issued and outstanding of 17.3M.

ICS is a strong engineering oriented company that is an early entrant into the Windows CE market. ICS is expecting to rapidly ramp up sales over the next quarter which are currently negligible. Since the market is relatively undeveloped it is difficult to forecast future revenues at this time, although we believe contracts totaling \$2.0-10.0M could be announced before the end of the year. We believe that ICS provides a good leveraged play on the emerging Windows CE market and rate the shares a **SPECULATIVE BUY** on that basis.

Datawave Inc. (DTV : VSE : \$1.18 : Issued 23.4M)

is a Vancouver based company that has developed a wireless intelligent vending machine. DTV currently distributes pre-paid, long-distance, telephone cards, with plans to expand into cellular phones, stamps, and pre-paid courier dispensing. DTV is proving to be a solid turn around story, Q1/97 results (ending on June 30), demonstrated a growth in revenues from \$650,000, to \$2.4M, while showing an decrease in expenses of 17.5%. Its net loss declined from \$868,000 to \$127,000 over the same period.

DTV is currently distributing phone cards in 2,500 sites, of which 1,000 are vending machines and the balance are distributed by retailers. DTV distributes long-distance phone cards for MCI, however, the Company is presently in negotiations with a number of other long distance carriers and retailers.

We believe that the positive trend in revenues and earnings will continue for DTV, with Q2/97 (ending September 30) being its first profitable quarter. Based on existing growth prospects and no significant new deals, we have an annual revenue forecast

for f1998 of \$15.0M, up from \$4.3M the previous year. As a result **we rate DTV shares A SPECULATIVE BUY, with a six month target price of \$2.00/share** (using a Price/Sales multiple of 4X on a fully diluted basis).

Canaccord Capital Corporation may have assumed an underwriting liability and/or entered into an agency agreement with respect to the securities mentioned herein.