



BASIC DUE DILIGENCE MEMORANDUM (SHORT-FORM)

To: • Inc. (the "Company")

From: •

Date: •

Re: **Proposed Purchase of • by • (the "Transaction")**
Preliminary Due Diligence Request

With respect to the above Transaction, please furnish us with the information described below. Please note that this memorandum is designed to allow you to indicate your response on this form, thereby substantially minimizing your response time. Accordingly, please check the appropriate line to the right of each request to indicate whether the request is either not applicable or applicable and whether the relevant documents or explanation is enclosed.

To the extent that your response to one (1) item satisfies the response requested in another item, please so indicate. Unless otherwise indicated, please provide the requested information for the Company and each of its subsidiaries. Please sign this document on the last page where indicated and return a copy of this memorandum to us, together with the applicable documents.

Prior to sending the documents to us, you should retain one (1) copy to facilitate the preparation of the Schedules to the definitive purchase agreement. All information furnished to us will be treated as strictly confidential.

THIS REQUEST PERTAINS ONLY TO MATTERS RELATED TO THE TRANSACTION. WE ARE OF COURSE AVAILABLE TO DISCUSS ANY QUESTIONS AT ANY TIME IN ORDER TO FACILITATE THE PROCESS. PLEASE PROVIDE THE REQUESTED INFORMATION AS SOON AS POSSIBLE.

1. CORPORATE MATTERS

No.	Description	None	Enclosed
(a)	Provide a complete list of all of the jurisdictions of incorporation for the Company and its subsidiaries		
(b)	Provide a complete list of all of the jurisdictions in which the Company and its subsidiaries are qualified to do business as extra provincial or foreign corporations		
(c)	Provide a complete list of all current shareholders of the Company, its subsidiaries and any other corporation or entity of which the Company or its subsidiaries own at least a 10% equity interest		
(d)	Provide a copy of the constating documents (e.g., Articles of Incorporation/ Amalgamation/ Continuance and all amendments thereto) of the Company and each subsidiary		

No.	Description	None	Enclosed
(e)	Provide a copy of the By-laws and all amendments thereto of the Company and each subsidiary		
(f)	Provide copies of the minutes and written resolutions and consents of all board, shareholder and committee meetings of the Company and each subsidiary		
(g)	Provide a copy of the stock transfer ledger (if available) of the Company and each subsidiary		
(h)	Provide copies of all shareholder agreements for the Company and its subsidiaries		
(i)	Provide a complete list of all subsidiaries and affiliated corporations of the Company together with a corporate group organizational chart including all partnerships, corporations, joint ventures in which the Company or its subsidiaries has any equity or debt interest		
(j)	Provide copies of any voting trust agreements involving the Company or its subsidiaries		
(k)	Provide copies of any registration rights/pre-emptive rights agreements for the Company or its subsidiaries		
(l)	Provide a complete list of all grants of options and warrants of the Company and its subsidiaries and indicate the names of all grantees, the size of the grants, the dates of grants, the number of shares presently exercisable and the consideration received/receivable by the Company or its subsidiaries		
(m)	Provide a complete list of all options proposed to be granted by the Company or its subsidiaries to any person or company and include the names/addresses of all proposed option holders and the number of options to be held by each of them		

2. *FINANCIAL STATEMENTS*

No.	Description	None	Enclosed
(a)	Provide copies of (a) all consolidated financial statements for each of the last three (3) fiscal years; (b) interim consolidated financial statements for each month since the date of the Company's last annual consolidated financial statements; and (c) interim consolidated financial statements for each month included in the Company's last annual consolidated financial statements		
(b)	Provide all documentation creating or evidencing all liens, claims, charges, security interests and other encumbrances against the assets of the Company and its subsidiaries		
(c)	Provide a complete list of all contingent liabilities and obligations of the Company and its subsidiaries including deferred payment obligations and product or service warranties		
(d)	Provide copies of all Company and subsidiary internal audit reports and management letters from auditors for the last three (3) years		
(e)	Provide copies of all correspondence with accountants including all auditors' letters to management regarding internal controls, audit letters to solicitors and solicitors' responses to such audit letters for the periods for which annual consolidated financial statements have been provided		
(f)	Provide copies of current and past operating budgets and any forecasts of future operations for the Company and its subsidiaries		
(g)	Provide copies of projected capital expenditures budgets of the Company and its subsidiaries		
(h)	Provide copies of all valuations and reports, if any, of the Company and its subsidiaries prepared by any investment bankers, technology analysts, management consultants, securities analysts or accountants		

No.	Description	None	Enclosed
(i)	Provide a complete debt schedule summarizing short-term/long-term debt and capital lease obligations including original principal amounts, interest rates, outstanding balances, maturity dates and any intercompany debt		
(j)	Provide current accounts receivable/accounts payable aging schedules with comparable data for the previous year and any allowance for doubtful accounts		
(k)	Provide a copy of the Company's most recent business plan		

3. TAXES/GOVERNMENTAL REPORTS AND COMPLIANCE

No.	Description	None	Enclosed
(a)	Provide copies of all federal, provincial, municipal/local and foreign tax returns (including information returns) and reports filed by the Company or its subsidiaries, including income, property, GST, sales, payroll, health and customs, excise and duty tax filings for the past three (3) years		
(b)	Provide a list of all tax elections filed (and related correspondence) in the past three (3) years for the Company and, in the context of a share sale, its subsidiaries		
(c)	Provide copies of all business, regulatory and other licenses, permits, consents, approvals, authorizations, registrations and filings from, with or to any federal, provincial or municipal/local governmental authority (indicating which of the terms expire or require a new application, consent or notification upon change in control of the Company or any subsidiary)		
(d)	Provide particulars of any corporate reorganization (including asset acquisitions) by the Company or its subsidiaries which was or will be subject to an election under the <i>Income Tax Act</i> (Canada) or equivalent and including reorganizations which resulted in the formation of the Company (including copies of any election forms prepared and/or filed relating to same and copies of any tax opinions or memoranda relating thereto)		

4. PERSONAL PROPERTY

No.	Description	None	Enclosed
(a)	Provide copies of all personal property leases for the Company and its subsidiaries		

5. CONTRACTS AND AGREEMENTS

No.	Description	None	Enclosed
(a)	Provide copies of all loan agreements, debentures, promissory notes, security agreements, lines of credit, indentures or other debt instruments and related correspondence including compliance letters, waivers and notices of default relating to the Company and its subsidiaries		
(b)	Provide copies of all guarantees and letters of credit relating to the Company and its subsidiaries		
(c)	Provide copies (or particulars) of all material purchase and sales agreements, whether oral or written, or commitments for future purchases of or payments for supplies or products, or for the performance of services by a third party which provide supplies, products or services used in connection with the business of the Company and its subsidiaries involving amounts over \$5,000.00		

No.	Description	None	Enclosed
(d)	Provide copies of all distribution and agency agreements, including but not limited to all agreements, contracts or commitments to sell or supply products or to perform services in connection with the business of the Company and its subsidiaries involving an amount over \$5,000.00		
(e)	Provide copies of all consulting, independent contractor, broker, finder, consignment, manufacturing and production contracts		
(f)	Provide copies of all significant maintenance and other service contracts for the Company and its subsidiaries		
(g)	Provide copies of forms of product/service warranties of the Company and its subsidiaries		
(h)	Provide copies of all material marketing and advertisement agreements for the Company and its subsidiaries		
(i)	Provide copies of all acquisition, disposition, consolidation, reorganization and merger agreements involving the Company or any subsidiary under which the Company or any subsidiary now has any continuing obligations		
(j)	Provide copies of all loan arrangements with, receivables from and other agreements involving present or former officers, directors, employees, shareholders and related corporations or entities		
(k)	Provide copies of all joint venture or partnership agreements		
(l)	Provide copies of all standard form contracts used by the Company or its subsidiaries (including standard invoice forms and purchase/order forms)		
(m)	Provide copies of all material contracts involving competitors of the Company or its subsidiaries		
(n)	Provide copies of all agreements, contracts or commitments relating to the business of the Company or any subsidiary not already provided above which cannot be terminated by the Company or its subsidiaries (as applicable) on 30 days notice without penalties exceeding \$5,000.00		
(o)	Provide copies of all material agreements, contracts or commitments not made in the ordinary course of business by the Company or its subsidiaries and not previously provided		
(p)	Provide all confidentiality, non-disclosure, non-solicitation or non-competition agreements to which the Company or any subsidiary may be bound		
(q)	Provide particulars of all transactions involving other corporations or entities in which the Company, its subsidiaries or their officers, directors or shareholders have an interest		
(r)	Provide copies of all agreements regarding obligations or liabilities of the Company as guarantor, surety, co-signer, endorser, co-maker, indemnitor or otherwise in respect of the obligations of any other person or entity (including the Company's subsidiaries)		
(s)	Provide copies of all agreements by which the Company is subject to any obligation or requirement to provide, or under which the Company is currently providing, funds to or making any investments (in the form of a loan, capital contribution or otherwise) in or to any person or entity		

6. REAL PROPERTY

No.	Description	None	Enclosed
(a)	Provide a complete list of all real property owned by or leased to the Company or any subsidiary or in which the Company or any subsidiary has an interest. Provide copies of all surveys, structural and mechanical drawings, deeds, leases and a summary description of all buildings, structures and improvements located thereon, including street address, legal description and		

No.	Description	None	Enclosed
	site plan		

7. *INTELLECTUAL PROPERTY*

No.	Description	None	Enclosed
(a)	Provide a complete list of all intellectual property counsel of the Company and its subsidiaries		
(b)	Provide copies of all opinion letters or reports from intellectual property counsel		
(c)	Provide a complete list of all persons, whether or not employed by the Company, to whom proprietary information (such as future product specifications) has been disclosed (including those persons who have executed confidentiality or non-disclosure agreements in favour of the Company and/or its subsidiaries)		
(d)	Provide particulars of all intellectual property owned or used by the Company or any subsidiary, whether registered or unregistered or pending, Canadian, U.S. and foreign, including, without limitation:		
	i. all patents including the pertinent registration information;		
	ii. all industrial designs including the pertinent registration information;		
	iii. all trademarks (whether or not registered and including Internet domain names), including the pertinent registration information;		
	iv. all copyrights, indicating the pertinent registration information; and		
	v. all proprietary processes, trade secrets or other proprietary information not identified in subparagraphs (i) through (iv) above		
(e)	Provide a complete list of all particulars of all software owned or licensed (except shrinkwrap) of the Company or its subsidiaries		
(f)	Provide copies of all registered and unregistered copyrights related to the business of the Company or its subsidiaries		
(g)	Provide copies of all copyright registrations and pending applications of the Company or its subsidiaries		
(h)	Provide particulars of all pending or threatened challenges to ownership/rights of the Company or any subsidiary to use any proprietary property (including court file particulars, nature of action, status, damages claimed); Provide specimen copies of all advertising materials, product packaging and labeling to ensure compliance with all applicable laws and regulations		

8. *INSURANCE*

No.	Description	None	Enclosed
(a)	Provide copies of all insurance policies or binders of insurance with respect to the assets of the Company and its subsidiaries (including general liability, property, automobile, fiduciary liability, directors' and officers' liability, key person medical life, disability, workers' compensation and title insurance) relating to the business and their assets and properties either owned and/or leased		

9. LITIGATION

No.	Description	None	Enclosed
(a)	Provide particulars of (including an estimate of the amount of contingent liability of the Company or any subsidiary) of all claims, charges, arbitrations, grievances, actions, suits, investigations or proceedings (whether or not purported on behalf of the Company or any subsidiary) to which the Company or any subsidiary is a party, or to which any of its assets or property may be subject (including actions that are pending or threatened against the Company or any subsidiary or affecting their assets or properties, at law, in equity, in admiralty, or by or before any federal, provincial, municipal or other governmental department, commission, board, bureau, agency, or instrumentality, domestic or foreign)		
(b)	Provide particulars and copies of all judgments, decrees, awards or orders outstanding against the Company or any subsidiary		

10. AFFILIATE TRANSACTIONS OR ARRANGEMENTS

No.	Description	None	Enclosed
(a)	Provide a complete list of all officers, directors or shareholders of the Company, any affiliate or family relative of any such officer, director or shareholder who is presently, directly or indirectly, a party to any transaction with the Company and include a description of: <ul style="list-style-type: none"> i. any contract, agreement, understanding, commitment or other arrangement providing for the employment of, furnishing of services by, rental or real or personal property from or otherwise requiring payments to any such officer, director, shareholder, affiliate or relative of such persons; and 		
	ii. any loans or advances to or from the Company or any subsidiary, giving for each the principal amount outstanding, interest rate, maturity date and security therefor		

11. ENVIRONMENTAL PROTECTION

No.	Description	None	Enclosed
(a)	Provide copies (together with all applications therefor) of all environmental permits, licenses, approvals, consents and authorizations obtained and furnish a list of same required but not yet obtained, under federal, provincial, or local laws, rules and regulations		