

DEAR SHAREHOLDER:

We have just completed a milestone year. As I reflect on the last eleven months as BakBone's CEO, I think it's fair to say that many of our early visions of the company are beginning to happen. We've seen many successes, such as new partnerships, new products, increasing revenues, and progressive growth worldwide. These successes are fueling and accelerating BakBone's ascension in the storage management software industry. They are the result of our effort to identify and bring together the best technologies available today, and manage them with a team of highly experienced storage professionals.

Since our inception last year, our efforts have repeatedly demonstrated our commitment to long-term success. We have moved quickly in a number of key areas, and achieved tangible, quantifiable results of which you can be proud. The highlights of these accomplishments include:

- Quarter-over-quarter revenue growth, averaging 57 percent;
- The establishment and expansion of our global network of more than 90 distributors and solution providers and BakBone sales offices supporting those relationships throughout North America, Europe, the Middle East, Africa and Asia;
- The successful launch of NetVault™, our flagship backup/restore software, in North America, as well as its continued introduction to new markets throughout the rest of the world;
- The successful introduction of more than 200 new application modules for NetVault providing support on more computer platforms and enterprise applications than any other company and greatly improving our competitive position in the storage management software market;
- The expansion of our worldwide end user customer base, including the U.S. Government, Florida State University, NBC, Reliance Mutual Insurance, Sony, and more;
- The establishment of partnerships and agreements with many of the biggest names in the data storage business; and
- The successful acquisition and integration of Tracer Technologies, Inc. The technology obtained as a result of the acquisition provides a tangible return on our investment today, and will help us expand our capabilities in the near future.

We've also kept our eye on the bottom line. Like a number of companies, we've streamlined our staff and pared back our expenses to speed our path to profitability.

Working together, we are taking BakBone to the next level. We have developed a worldwide management team of seasoned technology, sales and marketing professionals, each with an average of 17 years in the data storage industry. This team, led by Keith Rickard, our new CEO and President, has a demonstrated track record of accelerating sales and profits. These are Keith's thoughts:

Of all the many compelling reasons for me to join BakBone, the greatest is the strength of the technology. Recognized worldwide, the architecture is uniquely capable of easily optimizing network storage environments. It is that engineering excellence that places BakBone at the front end of the tremendous growth in storage, with award winning products and a technology vision that will secure our leading role in the future.

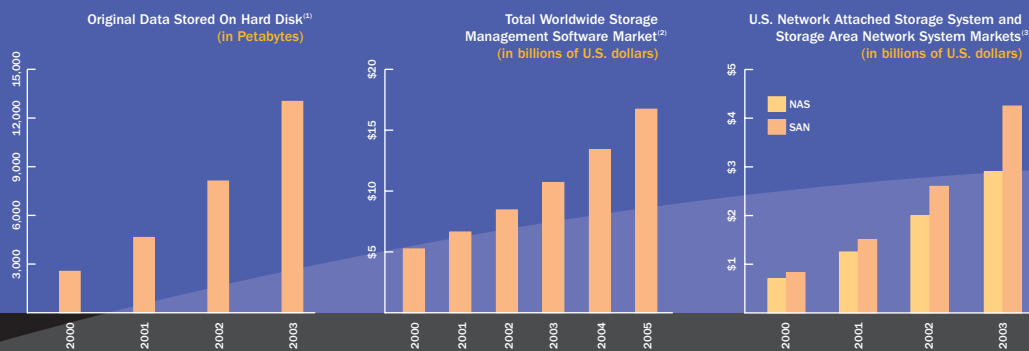
With a dedicated team of storage professionals, and a solid business model, we are poised to stake our claim in the storage management software market which Gartner, Inc. forecasts will more than triple in size over the next few years. I am delighted to add my experience and enthusiasm to BakBone's efforts to earn a much deserved, increased share of this dynamic market.

Together, we are focused on producing positive financial results and increasing the value of your investment in BakBone. We look forward to reporting many more notable events during FY02. This is an exciting time for our company; we thank you for your continued support and confidence in BakBone Software, and look forward to sharing its success with you.

Sincerely,

Tony Cerqueira
Executive Vice President

Keith Rickard
Chief Executive Officer and President



PARTNERSHIPS

BakBone's accomplishments over the last eleven months are a result of the focused execution of our business model, our go-to-market strategy, and the strength of our technology. We continue to build channel and strategic alliance relationships, enhance our technology and grow market share in network storage management. We are committed to continuing to accelerate success with:

MARKET MAKERS

The dramatic growth of the data storage market represents an exciting opportunity for BakBone Software. Gartner Inc., an independent research firm, forecasts that the worldwide storage management software market will be worth US\$16.7 billion by 2005, growing at a CAGR of 26.1 percent.

Industry analysts, such as Dataquest and others, see BakBone as a major force in this market space. They have consistently praised BakBone's product line, calling it "sophisticated,"⁽⁴⁾ "unique in that it's breaking all the speed records,"⁽⁵⁾ "quickly becoming one of the IS administrator's best friends,"⁽⁶⁾ and saying "...delivers on what the market is demanding."⁽⁷⁾

STORAGE LEADERS

In our first year, BakBone entered into agreements with many of the storage industry's leading firms worldwide, including partnerships, alliances and certifications with companies such as IBM, Hewlett-Packard, Network Appliance, Quantum/ATL, Brocade, Adaptec, TurboLinux, Crossroads, Spectra Logic, FalconStor, NCR and more.

These agreements provide BakBone with a higher degree of visibility, worldwide product acceptance, and validation through association with marquee companies already known by end users and channel partners. We have accelerated our partnership efforts to focus on both independent hardware vendors and independent software vendors to rapidly extend BakBone's reach with channel partners and end users. Our agility and ability to quickly seek out and respond to these opportunities makes us an ideal partner with these global leaders. As a result, we anticipate a significant number of additional alliances in the coming year, and even further third-party landmark validation of our technology and product solutions.

DISTRIBUTION PARTNERS

The worldwide acceptance of BakBone's products grows more evident with each passing quarter. BakBone's ever expanding sales and distribution network now spans 31 countries and includes more than 90 partners. BakBone's mission of developing a channel-centric sales strategy is taking shape worldwide. BakBone's North America distribution channel continues to grow, in both quality and volume. We've reached agreements with more than 70 top channel partners, and added another dozen top partners throughout Europe and Africa. In addition, we have expanded our reach throughout the Pacific Rim, with the signing of channel partners in Singapore, Australia and New Zealand.

To further strengthen the company's position and build upon the momentum we are generating throughout the industry, BakBone has achieved additional company and product awareness by investing in a number of co-marketing programs with our partners. BakBone will continue to accelerate our efforts with channel partners, and build upon our reputation for quality products as we pursue new market opportunities on a global basis.

IT PROFESSIONALS

Media and analysts list several "must haves" for today's storage management software, including enterprise platform coverage, centralized management and administration, intuitive use and high availability. BakBone's products exceed those requirements today, and our technology experts are already advancing the next generation of BakBone technology, to respond to the customer-driven requirements of tomorrow.

As a result, IT professionals around the world are recognizing BakBone, as we see our products purchased and implemented in such blue-chip companies as AT&T, Boeing, Coca-Cola, Compaq, Federal Express, NBC, Lear, Toyota and more. Our commitment to them is simple: with IT professionals required to do more than ever before in less time, we deliver products to solve their problems, using the best quality technology available today, and focus on reducing their total cost of ownership. We listen to them; we respond to their needs.

Source: ⁽¹⁾Gartner, Inc. 2001 ⁽²⁾UC Berkeley, 2000 ⁽³⁾IDC, 2000
⁽⁴⁾Bob Abraham, Freeman Reports ⁽⁵⁾John Toigo, Independent Analyst
⁽⁶⁾David Hill, Aberdeen Group ⁽⁷⁾Hurwitz Group

“...unique in that it’s breaking all the speed records...”

“...delivers on what the market is demanding.”

“...quickly becoming one of the IS administrator’s best friends...”

TECHNOLOGY

BakBone’s growing industry position has been enhanced by our ability to deliver state-of-the-art solutions for the network storage management industry. We continue to accelerate the delivery of customer-driven products and features to increase our intellectual property, maintain a competitive edge, and respond to current and emerging market requirements.

DESIGNED TO MEET TODAY’S NEEDS

The need for speed is paramount in data storage; speed of backup, speed of restore, and speed to bring new products to the marketplace that meet those increasing demands. Networked storage has become the preferred method of handling the onslaught of corporate data loads, encompassing gigabytes, terabytes and more. SAN, NAS, IP storage; each represents a major opportunity, but also a major challenge in installation and operation.

These are all areas in which BakBone excels. The elegance of our core architecture results in products that are not only high-speed, distinctly functional, enterprise capable and robust, but are unparalleled in their ease of use. BakBone products meet today’s needs because, from the beginning, they have been designed for the future.

NETVAULT

BakBone’s flagship product, NetVault, a well known storage software solution in Europe and Asia, was launched last year in North America. It has already gained wide acceptance for its engineering excellence, demonstrated by a continual ramp of sales. In January of last year, NetVault was enhanced with the introduction of Network Data Management Protocol (NDMP) support, enabling users to quickly back up and restore large data sets through network attached storage. NetVault won “Product of the Year” honors from Transform Magazine, and received excellent product reviews from magazines worldwide, including InfoWorld, ITWeek, Federal Computer Week, InfoStor and more.

APPLICATION PLUGIN MODULES (APMs™)

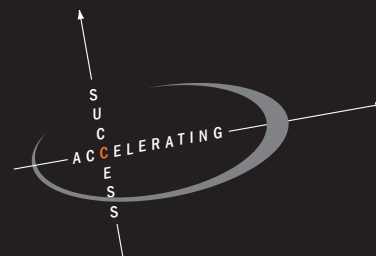
NetVault’s APMs enable users to rapidly install and use NetVault to seamlessly handle backup and restore tasks for today’s most popular applications, like Microsoft SQL Server, Microsoft Exchange Server, Lotus Notes, Oracle 8i, SAP R/3, NCR Teradata and more. The range of APMs are among the most comprehensive in the industry, and they are consistent with NetVault’s unparalleled combination of speed, power and ease of use. The APMs can be installed within seconds, making it possible for IT professionals to do their work in far less time, with far less hassle than alternative solutions.

MAGNAVAULT•

MagnaVault, direct access storage software for automated management of CD, DVD and Magneto-Optical (MO) libraries, is recognized throughout the industry as the leader in its segment. Near-line storage continues to grow in importance as media costs drop, information retrieval speeds increase and demands for permanent archived records also increase. This is particularly true in several key industries, such as entertainment, medical services, financial services and government. With MagnaVault, BakBone not only meets a need today, but is poised to take advantage of a market that is on a steady growth path.

DESIGNED TO MEET TOMORROW’S NEEDS

BakBone is committed to providing the solutions IT professionals demand as their network storage requirements continue to grow. Our technology vision includes enhancements that enrich our products, respond to changing needs, and produce revenue today – as well as position BakBone to fully reap the benefits of developing trends. The products in development today will provide users with the full range of tools, seamlessly integrated, that enable effortless management of any data, anywhere, any time.



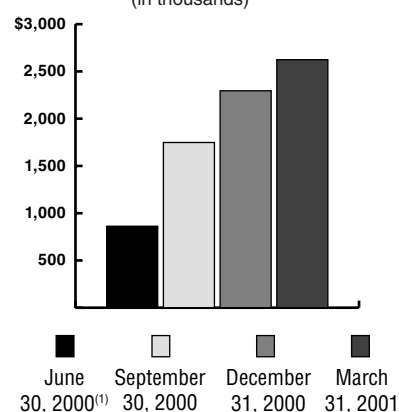
BakBone Software Incorporated

Financial Highlights 2001

	March 31, 2001
<i>(dollars in thousands, except per share data)</i>	
Revenues	\$7,529
Gross margin	\$6,342
Operating expenses	\$35,170
Operating loss	\$28,828
Net loss	\$32,717
Basic and diluted loss per share	\$0.92
Weighted - average common shares	35,571,845
Cash and cash equivalents	\$6,012
Total assets	\$29,573
Total liabilities	\$10,135
Total shareholders' equity	\$19,280

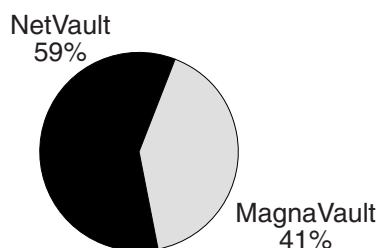
Quarterly Revenues

(in thousands)

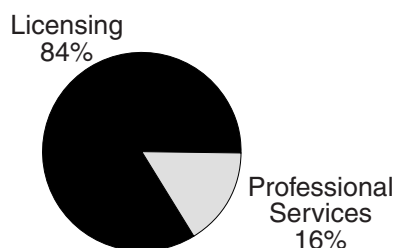


⁽¹⁾Our fiscal year-end was changed from April 30 to March 31 effective with the fiscal year beginning May 1, 2000. This change caused the quarter ended June 30, 2000 to have only two months; all other quarters presented are three months.

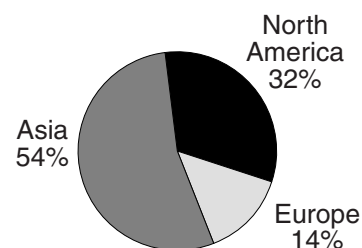
Revenue by Product Line



Revenue by Source



Revenue by Region



MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

The following section contains forward-looking statements related to revenues, expenditures and sufficiency of capital resources. Actual results may differ from those projected in the forward-looking statements for a number of reasons, including those described in the Risks Factors section below.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in this annual report. All amounts are expressed in Canadian dollars unless otherwise noted.

Overview

BakBone Software Incorporated (the "Company") is an international storage management software company that develops and globally distributes high performance software solutions for the network storage and open systems markets. Our corporate headquarters are located in San Diego, California. This facility houses executive management as well as sales, marketing, engineering, customer support and administrative departments. We maintain offices in Tokyo, Japan and Poole, Dorset, United Kingdom, that concentrate on sales, marketing and administrative functions for the Asian and European regions, respectively. Our office in Calgary, Alberta, Canada, focuses on investor relations and compliance with Canadian regulatory issues.

We have incurred net operating losses since inception of our operations in March 2000. Our operating losses were \$32.7 million and \$1.3 million for the eleven months ended March 31, 2001 and the year ended April 30, 2000, respectively. Losses are expected to continue through the year ended March 31, 2002 as we expand our sales efforts, particularly in North America, and develop and enhance our current software product offerings. We have incurred an accumulated deficit of \$34.0 million through March 31, 2001.

The Company develops and sells two main products, NetVault and MagnaVault. The following is a brief description of each product:

NetVault

NetVault is storage management application software for the backup and restoration of data that addresses the growing data storage needs of systems administrators across a wide range of storage topologies, including: direct-attached storage, network-attached storage, storage area networks and IP storage. NetVault's architecture meets the challenges of storage management for a wide variety of applications, including all of the most popular databases used by firms worldwide. NetVault is currently sold through a network of original equipment manufacturers (OEMs) and solution providers throughout North America, Europe, Middle East, Africa and the Pacific Rim.

In conjunction with the March 2000 acquisition of NetVault Holdings Ltd., we acquired and are the sole owner of the intellectual property rights for the NetVault software.

MagnaVault

MagnaVault is a comprehensive secondary storage (or near-line) management software for UNIX and Linux host operating environments. The MagnaVault family of system software products provides virtual file system support for a wide variety of CD, DVD, optical and tape storage technologies. MagnaVault is designed to maximize the performance and utility of all types of secondary storage media and provides transparent file system access to both NFS (Unix) and CIFS (Windows) clients. MagnaVault is currently sold through our offices in North America and Asia with Europe beginning its sales of the product during fiscal year 2002.

In conjunction with the June 2000 acquisition of Tracer Technologies, Inc., we acquired and are the sole owner of the intellectual property rights for the MagnaVault software.

Operating Results

Revenues

Revenues for the eleven months ended March 31, 2001 were \$7.5 million, consisting of \$6.3 million in licensing revenue, \$1.2 million in services revenue and nominal other revenues. During this period, NetVault and MagnaVault sales provided 59% and 41% of total revenues, respectively.

Licensing

Our products are sold exclusively through our channel partners, value added resellers (VARs), value added distributors (VADs) and OEMs, in three geographic segments: Asia, North America and Europe, which contributed \$3.8 million, \$1.9 million, and \$600,000 in licensing revenue during the eleven months ended March 31, 2001, respectively.

During the eleven months ended March 31, 2001, our Asian operations provided 60% of total licensing revenues. These revenues are generated through sales by BakBone Software KK and Tracer Technologies Japan KK, which were acquired in March 2000 and June 2000, respectively. Sales efforts are directed from one office in Tokyo, Japan, and cover all of Asia, Australia and New Zealand.

During the eleven months ended March 31, 2001, our North American operations provided 30% of total licensing revenues, which consisted of both NetVault and MagnaVault sales. NetVault licensing revenues resulted from the introduction of NetVault to North America in October 2000, the growth in our sales force and the increased acceptance of NetVault within the industry. We began establishing our partner channels for NetVault in North America in August 2000 and as of March 31, 2001, we had executed partner agreements with over 50 VAR/VAD partners and one OEM partner, Seagate. Licensing revenues for MagnaVault resulted from our acquisition of Tracer Technologies, Inc., in June 2000 which provided us a core set of over 15 new partners and greater than 6,000 end users. Our sales efforts have also focused on the existing MagnaVault customer base as a source of NetVault sales leads.

During the eleven months ended March 31, 2001, our European operations provided 10% of total licensing revenues. These revenues resulted almost entirely from sales of NetVault and were generated from our sales office in the United Kingdom, which we acquired as part of the March 2000 acquisition of NetVault Holdings Ltd. Licensing revenues for this office have grown mostly through expansion into new

areas of Europe, the Middle East and Africa. In addition, sales related to our NCR Teradata agreement, dated May 1999, commenced in January 2000 after development of the NetVault application plug-in module was completed.

During fiscal 2002, we plan to launch a dedicated sales effort for MagnaVault in the European, Middle Eastern and African markets through our United Kingdom office. During the eleven months ended March 31, 2001, we had nominal sales of MagnaVault in these regions as we had not yet dedicated our sales efforts to these regions; however, we believe near-line demand in these regions is strong and that we offer a competitive product to those already in the market.

Services

Services revenue is made up almost entirely of maintenance revenues resulting from the sale of customer support contracts for both NetVault and MagnaVault. These contract fees generally approximate 20% of the licensing fee. The associated revenues from customer support contracts are deferred and amortized on a straight-line basis over the life of the contract, generally one year.

During the eleven months ended March 31, 2001, service revenues generated in the North America, European and Asian regions were 40%, 35% and 25% of total service revenue, respectively. NetVault is supported from our offices in the North American, European and Asian regions and MagnaVault is supported from our offices in North America and Asia. As our European operation begins to sell MagnaVault, it will also commence support for existing and all new customers in the region.

Cost of Revenues

Cost of revenues totaled \$1.2 million for the eleven months ended March 31, 2001, and consisted primarily of the direct cost of providing customer support. Our costs to provide this support consist primarily of salary and benefits for staff working in our client service departments as well as associated costs of computer equipment, telephone and other general costs necessary to maintain an adequate level of customer support and service our end users.

Also included in cost of revenues are the direct costs of raw materials and packaging for the products shipped to end users. These costs, however, are nominal as the product shipped to customers consists of a CD, manual, printed box and other media. Product costs for these items individually and in aggregate are minimal and we have little risk of inventory obsolescence due to the small quantities of these items needed to fill our customers orders and the short lead time to acquire additional materials. Raw material purchases are held in inventory until the sale of the related software product at which time the cost per unit sold is released to cost of revenues.

Sales and Marketing Expenses

Sales and marketing expenses for the eleven months ended March 31, 2001 totaled \$17.3 million and consisted mainly of costs necessary to support our 51 worldwide sales personnel including salary and benefits, commissions and travel. In order to build the North American sales region, we hired a substantial number of new sales professionals during the eleven months ended March 31, 2001. Headcounts for the

Sales departments in the United Kingdom and Japan increased, although to a lesser extent, during the same period.

We are currently focusing our sales and marketing efforts on what we believe is the largest potential market, North America, where NetVault is a new choice for end users. We believe there exists a greater potential market share as well as greater IT dollars budgeted for data management software.

Our efforts to introduce NetVault and promote MagnaVault in North American led to substantial spending in advertising and public relations. In addition, we are attending trade shows throughout North America, Asia and Europe to promote our products and demonstrate, on a face-to-face basis with potential customers, their ease of use and speed of backup/restore of data on the many topologies and platforms our products support.

Research and Development Expenses

Research and development expenses for the eleven months ended March 31, 2001 totaled \$4.4 million and consisted primarily of salary and related costs for our 70 engineers worldwide. The majority of our engineering efforts are carried out in the United States and United Kingdom; these locations are responsible for the ongoing development and testing of our products. Engineering efforts in Japan are minimal and relate to creating functionality and interface capabilities for users in the Asian region.

These costs include the setup and operation of our Interoperability Lab in San Diego, California, developed to test and qualify our software products on various vendor hardware solutions. In addition, we are focusing our development expenditures on upgrading MagnaVault as well as creating a core foundation that will integrate NetVault and MagnaVault into common code based applications.

General and Administrative Expenses

General and administrative expenses for the eleven months ended March 31, 2001 totaled \$13.4 million. This amount consists primarily of salary and related costs for our 41 executive and administrative employees throughout our worldwide offices. We also incur facility rents, build-out and depreciation, maintenance and other related costs to support our corporate headquarters and three subsidiary offices as well as our satellite sales offices throughout the world.

During the eleven months ended March 31, 2001, we incurred substantial legal fees related to the identification and protection of our intellectual property, assimilation of acquired entities, public reporting of our financial results and operational information, and general corporate matters. Professional fees from accounting and consulting firms were incurred in the areas of annual audit, quarterly public filings, taxes, implementation of our enterprise reporting package and other general areas.

Amortization of Intangibles

Amortization of intangibles during the eleven months ended March 31, 2001 totaled \$4.8 million. The Company recorded intangibles of \$4.3 million and \$12.5 million relating to the acquisition of NetVault Holdings Ltd., in March 2000 and Tracer Technologies, Inc., in June 2000, respectively. We determined the life of intangibles from both of our acquisitions to be three years due to the fact that the excess paid for the

associated entities over the fair market value of the assets acquired related entirely to the acquired software's intellectual property. Intangibles are amortized on a straight-line basis, resulting in a monthly charge to the consolidated statement of operations of \$470,000 through March 2003 and \$350,000 from April 2003 through June 2003, which will provide for full amortization of existing intangibles.

Liquidity and Capital Resources

We have financed our operations primarily through private placements of special warrants in the provinces of British Columbia, Alberta and Ontario, Canada. During the year ended April 30, 2000, the Company raised gross proceeds of \$38,700,000 through the private placement of 6,000,000 Series A Special Warrants and 3,000,000 Series B Special Warrants at prices of \$1.50 and \$9.90, respectively. Net proceeds to the Company after financing costs were \$35,413,000. Each Series A Special Warrant was converted to one common share and 0.5 share purchase warrant and each Series B Special Warrant was converted to 1.1 common shares and 0.55 share purchase warrant, for no additional consideration, upon receipt of the approved prospectus. Each full share purchase warrant entitles the holder to purchase one common share at a specified exercise price. As of March 31, 2001, there were 1,841,995 outstanding share purchase warrants related to this offering, having a weighted average exercise price of \$14.49 and expiring no later than March 2002.

In May 2001, the Company completed a private placement of 3,000,000 special warrants at a price of \$5.00 per special warrant for gross proceeds of \$15 million. Each special warrant is exercisable, for no additional consideration, into one common share and one half share purchase warrant upon receipt of the approved prospectus. Each full share purchase warrant will entitle the holder to purchase one common share at \$7.50 and expires no later than November 2001.

Net cash used in operating activities during the eleven months ended March 31, 2001 was \$26.9 million which resulted from a net loss of \$32.7 million partially offset by non-cash depreciation and amortization of \$5.9 million. Other operating activities that contributed to the use of cash included increases in accounts receivable of \$663,000 and other assets of \$943,000. Operating activities providing a source of cash consisted of increases in accounts payable of \$402,000, accrued liabilities of \$723,000 and deferred revenue of \$461,000.

Cash used in investing activities during the eleven months ended March 31, 2001 was \$7.1 million which consisted primarily of \$2.4 million for the acquisition of Tracer Technologies, Inc., in June 2000 (net of cash acquired of \$1.1 million) and capital expenditures of \$4.8 million. Capital expenditures included the purchase of an enterprise resource planning system, a customer relationship management system, a global telecommunications system, equipment and devices for interoperability testing, and the build-out of our corporate headquarters in San Diego, California and our office in Tokyo, Japan.

Cash flows provided by financing activities during the eleven months ended March 31, 2001 were \$9.5 million, which consisted primarily of proceeds from the exercise of warrants of \$6.9 million. In addition, we entered into a line of credit with a bank that provided \$3.9 million of borrowings and received \$864,000 from the exercise of stock options during the eleven months ended March 31, 2001 which were reduced partially by \$1.4 million of restrictions on cash.

As of March 31, 2001, the Company had \$6.0 million in cash and cash equivalents available for working capital. In addition, as mentioned above, we raised an additional \$15 million in May 2001 through

the private placement of special warrants. We believe that existing cash and cash equivalents will be sufficient to meet our anticipated cash needs through the current fiscal year. If cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or attempt to obtain a larger credit facility.

Additional debt would result in increased expenses and could result in covenants that would restrict our operations. The sale of additional equity securities would result in immediate and potentially significant dilution to our shareholders. We have not made arrangements to obtain additional debt or equity financing and there is no assurance that additional financing, if required, will be available in amounts or on terms acceptable to us, if available at all.

Inflation and Changing Prices

Inflation and changing prices have not had a material impact on our operations.

Foreign Currency

Our revenues result mainly from sales made in U.S. dollars, British Pounds and Japanese Yen. We will continue to incur operating costs mainly in U.S. dollars, British Pounds, Japanese Yen and, to a lesser extent, Canadian dollars. Thus, our operations are susceptible to fluctuations in currency exchange rates.

While we attempt to mitigate some of the risks of exchange rate fluctuations between the U.S. dollar and the Canadian dollar by maintaining cash reserves denominated in U.S. dollars, there can be no assurance that this strategy will substantially reduce the potential adverse effect of exchange rate fluctuations on our business, financial condition or results of operations.

We do not currently engage in hedging or other activities to reduce exchange rate risk but may do so in the future, if conditions warrant.

Risks Factors

The Company is subject to each of, and the cumulative effect of all of, the following risk factors:

- Dependence on large orders from end user customers for a significant portion of revenues;
- Significant amounts of revenues derived from only a few customers;
- Intense competition in target markets;
- Potential need to raise additional capital;
- Potential fluctuation of revenues between quarters which could cause extreme volatility in our stock price;
- Management of future growth and expansion;
- Risk of third party claims of infringement;

- Protection of proprietary information;
- Termination of existing strategic alliances and inability to develop new strategic alliances;
- Constant management of distribution channels;
- Reliance on competing equipment manufacturers as a material source of revenues;
- OEM agreements that may not result in increased product sales;
- Lack of diversification of existing product lines;
- Short product life cycles associated with software;
- Development of new and enhanced products that achieve widespread market acceptance;
- Operations in foreign countries;
- Potential for significant product defects which may result in liability or decreased sales; and
- Ability to hire and retain qualified employees and key management personnel.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The consolidated financial statements of BakBone Software Incorporated and subsidiaries (the Company) and the other financial information included in this annual report are the responsibility of the Company's management and have been examined and approved by its Board of Directors. These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include some amounts that are based on management's best estimates using careful judgement. The selection of accounting principles and methods is management's responsibility.

The Company maintains internal control systems designed to ensure that financial information is relevant and accurate and that assets are safeguarded. Management recognizes its responsibility for conducting the Company's affairs to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the consolidated financial statements and other financial information through its Audit Committee.

This committee's role is to examine the consolidated financial statements and recommend that the Board of Directors approve them, and to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the Audit Committee meets periodically with the external auditors, with and without the Company's management, to review their audit plan and discuss the results of their examinations.

KPMG LLP has audited the consolidated financial statements in accordance with generally accepted auditing standards in Canada and the United States. KPMG LLP are the external auditors who were appointed by the Board of Directors. KPMG LLP has full and unrestricted access to the Audit Committee to discuss their audit and related findings as to integrity of the Company's financial reporting.

(Signed) MR. KEITH RICKARD
Chief Executive Officer and President

(Signed) MR. JOHN FITZGERALD
Corporate Controller

INDEPENDENT AUDITORS' REPORT

**The Board of Directors and Shareholders
BakBone Software Incorporated:**

We have audited the consolidated balance sheets of BakBone Software Incorporated and subsidiaries (the Company) as of March 31, 2001 and April 30, 2000, and the related consolidated statements of operations and accumulated deficit and cash flows for the eleven months ended March 31, 2001 and for the year ended April 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada and the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2001 and April 30, 2000, and the results of their operations and their cash flows for the eleven months ended March 31, 2001, and for the year ended April 30, 2000, in conformity with accounting principles generally accepted in Canada.

KPMG LLP

San Diego, California
United States of America
June 22, 2001

BAKBONE SOFTWARE INCORPORATED
CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u> <u>2001</u>	<u>April 30,</u> <u>2000</u>
	(dollars in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,012	\$ 30,687
Restricted cash	142	—
Accounts receivable	2,214	1,088
Other assets	788	469
Total current assets	<u>9,156</u>	<u>32,244</u>
Capital assets, net	5,891	802
Restricted cash	1,230	—
Intangibles, net	12,347	4,129
Other assets	949	141
Total assets	<u>\$ 29,573</u>	<u>\$ 37,316</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,157	\$ 1,145
Accrued liabilities	1,767	943
Deferred revenue	1,058	420
Current portion of capital lease obligations	302	13
Current portion of notes payable	4,058	—
Loans from related parties	118	366
Total current liabilities	<u>9,460</u>	<u>2,887</u>
Capital lease obligations, excluding current portion	379	—
Notes payable, excluding current portion	296	—
Total liabilities	<u>10,135</u>	<u>2,887</u>
Minority interest	158	—
SHAREHOLDERS' EQUITY:		
Share capital	52,858	87
Share capital held by subsidiary	(98)	—
Special warrants	—	35,630
Cumulative exchange adjustment	551	26
Accumulated deficit	<u>(34,031)</u>	<u>(1,314)</u>
Total shareholders' equity	<u>19,280</u>	<u>34,429</u>
Commitments and contingencies		
Total liabilities and shareholders' equity	<u>\$ 29,573</u>	<u>\$ 37,316</u>

See accompanying notes to consolidated financial statements.

BAKBONE SOFTWARE INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	Eleven months ended March 31, 2001	Year ended April 30, 2000
	(dollars in thousands, except loss per share)	
REVENUES	\$ 7,529	\$ 483
COST OF REVENUES	1,187	51
Gross margin	6,342	432
OPERATING EXPENSES:		
Sales and marketing	17,295	438
Research and development	4,439	276
General and administrative	13,436	1,109
Total operating expenses	35,170	1,823
Operating loss	(28,828)	(1,391)
INTEREST INCOME, NET	594	228
AMORTIZATION OF INTANGIBLES	(4,829)	(241)
FOREIGN EXCHANGE GAINS, NET	30	32
OTHER INCOME, NET	267	58
MINORITY INTEREST	49	—
Net loss	(32,717)	(1,314)
ACCUMULATED DEFICIT, BEGINNING OF PERIOD	(1,314)	—
ACCUMULATED DEFICIT, END OF PERIOD	\$ (34,031)	\$ (1,314)
LOSS PER SHARE — BASIC AND DILUTED	\$ (0.92)	\$ (0.14)
WEIGHTED-AVERAGE COMMON SHARES	35,571,845	9,515,933

See accompanying notes to consolidated financial statements.

BAKBONE SOFTWARE INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Eleven months ended March 31, 2001	Year ended April 30, 2000
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (32,717)	\$ (1,314)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,911	271
Minority interest	(49)	—
Loss on disposal of capital assets	20	—
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(663)	67
Other assets	(943)	(228)
Accounts payable	402	(287)
Accrued liabilities	723	666
Deferred revenue	461	14
Net cash used in operating activities	<u>(26,855)</u>	<u>(811)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,790)	(305)
Acquisitions of businesses, net of cash acquired	(2,369)	(3,681)
Proceeds from sale of capital assets	43	—
Net cash used in investing activities	<u>(7,116)</u>	<u>(3,986)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of capital lease obligations	(234)	(3)
Proceeds from notes payable	3,942	—
Payments of notes payable	(153)	—
Proceeds from issuance of special warrants	—	37,831
Offering costs related to special warrants	(217)	(2,725)
Proceeds from exercise of stock options	864	187
Proceeds from exercise of warrants	6,894	235
Payments of related party loans	(248)	(67)
Restricted cash	(1,372)	—
Net cash provided by financing activities	<u>9,476</u>	<u>35,458</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
Net (decrease) increase in cash and cash equivalents	<u>(180)</u>	<u>26</u>
Net (decrease) increase in cash and cash equivalents	<u>(24,675)</u>	<u>30,687</u>
Cash and cash equivalents, beginning of period	30,687	—
Cash and cash equivalents, end of period	<u>\$ 6,012</u>	<u>\$ 30,687</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Businesses Acquired:		
Fair value of assets acquired, net of cash acquired	<u>\$ 1,030</u>	<u>\$ 2,037</u>
Liabilities assumed	<u>\$ 1,453</u>	<u>\$ 2,564</u>
Noncash investing and financing activities:		
Equipment acquired under capital leases	<u>\$ 901</u>	<u>\$ —</u>
Share capital issued for acquisition of business	<u>\$ 9,600</u>	<u>\$ (348)</u>

See accompanying notes to consolidated financial statements.

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

1. THE COMPANY AND BUSINESS COMBINATIONS

BakBone Software Incorporated (BakBone or the Company) is an international storage management software company that develops and globally distributes storage management solutions to the open systems markets, providing data protection and management solutions scalable from workgroup to enterprise. The Company's corporate headquarters are located in San Diego, California.

The Company, formerly Net Resources Incorporated (Net Resources), was originally incorporated in the Canadian Province of British Columbia under the Company Act. In November 1992, the Company continued from British Columbia to the Province of Alberta where it engaged in mineral exploration activities. These exploration activities were ceased during 1999 due to declining prices in the mineral markets, and the mining assets were written off. On March 13, 2000, the Company changed its name to BakBone Software Incorporated.

In August 2000, the Board of Directors approved a change in the fiscal year-end of the Company for financial reporting purposes from April 30 to March 31, effective with the fiscal year beginning May 1, 2000.

On March 16, 2000, the Company acquired, directly and indirectly, 100% of NVS Holdings Inc. (NVS) and NetVault Holdings Limited and an aggregate 47% of NetVault Corporation (NVKK). In regards to these acquisitions, the Company assigned a convenience date of March 1, 2000 for accounting purposes. The related transactions are as follows:

- (a) NVS acquired all outstanding common shares of NetVault Holdings Limited and its wholly owned subsidiary located in the United Kingdom, NetVault Limited, and NetVault Limited's 25% interest in NVKK, located in Japan (collectively NVHL), in exchange for a cash payment of \$4.5 million. The acquisition of NVHL was accounted for by the purchase method of accounting, and accordingly, the operating results of NVHL have been included in the accompanying consolidated financial statements of the Company from March 1, 2000. The fair value of the assets and liabilities acquired was as follows (in thousands):

Net working capital deficiency	\$ (81)
Capital assets	369
Excess purchase price	<u>4,318</u>
Purchase price (\$4,508 plus \$98 of transaction costs)	<u>\$ 4,606</u>

- (b) The Company issued 15,625,000 common shares in exchange for all issued and outstanding shares of NVS. NVS was formed as a special purpose entity solely to effect the NVHL acquisition and was incorporated under the laws of the Province of Alberta on December 17, 1998 and, as such, had no operations prior to the acquisition. The transaction resulted in a reverse takeover of the Company by NVS as the shareholders of NVS owned a majority of the combined company as of the acquisition date. As this business combination was between Net Resources, a shell company, and NVS, an operating company, the Company treated the combination as an issuance of securities by the operating company at a value equal to the fair value of the tangible net liabilities

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

1. THE COMPANY AND BUSINESS COMBINATIONS (Continued)

of Net Resources. The application of reverse takeover accounting, considering it was a combination between a shell company and an operating company, resulted in the following:

- (i) The consolidated financial statements of the combined entity are issued under the name of the legal acquirer, BakBone, but are considered a continuation of the historical financial statements of the legal subsidiary, NVS.
- (ii) NVS is deemed to be the acquirer for accounting purposes and its assets and liabilities are included in the consolidated financial statements at their historical carrying values.
- (iii) Control of the net assets and operations of the Company is deemed to have been acquired by NVS. For the purposes of this transaction, the deemed consideration was the fair value of the net tangible liabilities of the Company immediately prior to the acquisition of \$303,000. The operating results of the Company are included in the consolidated financial statements from March 1, 2000. Although the consolidated statement of operations and accumulated deficit is presented as of and for the year ended April 30, 2000, it only includes the two months ended April 30, 2000, as NVS had no operations prior to the NVHL acquisition on March 1, 2000 and BakBone's financial results are included from the date of acquisition.
- (iv) The accumulated deficit of the Company at March 1, 2000 was eliminated upon acquisition. In accordance with reverse takeover accounting between an operating company and a shell company, the amount allocated to share capital represents the net book value of NVS of \$13,000 plus the fair value of the net tangible liabilities of the Company of \$303,000. The number of shares subsequent to the reverse takeover includes those of the Company outstanding at March 16, 2000 plus the shares issued to effect the reverse takeover.

With respect to the 15,625,000 shares issued by the Company, NVS had the ability to allocate the shares at its discretion, and as a result, 2,100,000 shares were issued to an employee benefit trust (EBT) on March 16, 2000. The EBT was established for the benefit of certain employees and principals of NetVault Limited to ensure their continued involvement in the operations of the Company. The EBT shares are to be distributed to employees pursuant to the related vesting terms, generally over three years.

- (c) The Company issued 375,000 shares in exchange for 22% of the outstanding common shares of NVKK. As the Company owned a 25% equity interest in NVKK through the acquisition of NVS and NVHL described above, its aggregate interest increased to 47%.

This transaction was recorded at the carrying value of NVKK's net deficit of \$45,000. The carryover basis of accounting was used as this transaction represented the combination of entities under common control. Of the 53% of NVKK ownership not held by the Company, 46% is owned by two directors and officers of the Company. These individuals represent two-thirds of the Board of Directors of NVKK. Accordingly, since the Company exercises effective control of NVKK, the operating results of NVKK have been included in the accompanying consolidated financial statements of the Company from March 1, 2000.

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

1. THE COMPANY AND BUSINESS COMBINATIONS (Continued)

On June 9, 2000, the Company acquired all of the issued and outstanding common shares of Tracer Technologies, Inc. and its 50% ownership of the common shares of Tracer Technologies Japan Corporation (collectively Tracer), for cash and acquisition costs totaling \$3.5 million and 600,000 common shares of the Company valued at \$9.6 million on the date of acquisition. Of the 600,000 shares issued, 122,340 shares were issued to a trust beneficially owned by the family of a director of the Company. The acquisition was accounted for by the purchase method of accounting, and accordingly, the operating results of Tracer have been included in the accompanying consolidated financial statements of the Company from the date of acquisition. The excess of purchase price over the fair value of the net assets acquired of \$600,000 was \$12.5 million and is being amortized on a straight-line basis over three years, the expected useful life.

In order to retain certain principals of Tracer as employees, the Company issued stock options to acquire 250,000 common shares at an exercise price of \$6.00 per share. One of the principals is a relative of a director of the Company and received options to acquire 62,500 common shares. The director also indirectly received 3,060 common shares of the Company through his ownership in Tracer Technologies Japan Corporation, one of the former shareholders of Tracer.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. All amounts are expressed in Canadian dollars, unless otherwise noted.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, BakBone Software, Inc., NVS, BakBone Software Ltd. (formerly NetVault Holdings Ltd.), BakBone Acquisition Corp. (formerly Tracer Technologies, Inc.), and its 47% and 50% owned subsidiaries, BakBone Software KK (formerly NetVault Corporation) and Tracer Technologies Japan Corporation, respectively. All material intercompany transactions and accounts have been eliminated on consolidation. The consolidation of NVKK and Tracer KK was determined to be appropriate as the Company controls a combined 93% of NVKK and 75% of Tracer KK through direct ownership and beneficial ownership through two directors of the Company, who combined own an additional 46% of NVKK, and one director of the Company who owns an additional 25% of Tracer KK.

In preparing the consolidated financial statements, the Company has recorded entries to account for the minority interest in the net income or loss of NVKK and Tracer KK. During the eleven months ended March 31, 2001, the minority interest balance of NVKK was reduced to zero due to losses incurred and, as such, no minority interest is reflected in the consolidated balance sheet for this entity. Minority interest for Tracer KK is reflected in the consolidated financial statements as of and for the ten months ended March 31, 2001.

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign Currency

The accounts of the Company's foreign subsidiaries are translated into Canadian dollars using the current rate method whereby monetary items are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate during the reporting period. Foreign currency translation gains and losses are included as a separate component of shareholders' equity.

Certain transactions of the Company's foreign subsidiaries are carried out in currencies other than the subsidiaries' local currency. Any gains or losses resulting from these transactions are included in results of operations as incurred.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of money market instruments, commercial paper and other highly liquid investments with original maturities of three months or less from the date of purchase. Cash and cash equivalents subject to restriction are classified as restricted cash (Note 8).

(d) Capital Assets

Capital assets are recorded at cost and depreciated using the straight-line basis over the assets' useful lives as follows:

Computer equipment and software	3-5 years
Furniture and fixtures	5-7 years
Leasehold improvements	Shorter of estimated useful life or life of lease

(e) Intangibles

Intangibles are recorded at cost and amortized on a straight-line basis over three years. The Company assesses the recoverability of intangibles by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of intangibles impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of intangibles will be impacted if estimated future operating cash flows are not achieved.

(f) Impairment

The Company reviews the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated future cash inflows from such assets less estimated future cash outflows are less than the carrying amount, an impairment loss is recognized.

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue Recognition

The Company derives revenue from licensing its software and from the sale of customer support services. Revenue from software licenses is recognized when a noncancelable license agreement has been signed, the software and related documentation have been shipped, there are no material uncertainties regarding customer acceptance, collection of the resulting receivable is deemed probable, and no other significant vendor obligations exist. Software maintenance revenues from customer support services are deferred and recognized over the related contract period.

(h) Product Development Costs

Product development costs related to research, design and development of software applications are charged to expense as incurred. To date, completion of working models of the Company's applications and the general release of the products have substantially coincided. As a result, the Company has not capitalized any application development costs as such costs have been insignificant.

(i) Loss per Share

Basic earnings or loss per share is calculated using the weighted-average number of common shares outstanding. Diluted earnings or loss per share is calculated similar to basic earnings or loss per share except that the weighted-average shares outstanding are increased to include additional shares from the assumed exercise of common stock equivalents, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. For the eleven months ended March 31, 2001 and the year ended April 30, 2000, 5,177,033 and 12,600,399 common stock equivalents, respectively, were excluded from the computations of diluted loss per share as their effect is anti-dilutive.

(j) Stock-Based Compensation Plan

The Company has multiple stock-based compensation arrangements, which are described in Note 6. No compensation expense is recognized for these plans when stock options are issued to employees and consultants for services rendered.

(k) Income Taxes

The Company follows the asset and liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on temporary differences and are measured using the current, or substantially enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not the asset will not be realized.

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial Instruments and Credit Risk

The Company is exposed to the risk that arises from fluctuations in foreign exchange rates and the volatility of those rates. The Company does not use derivative instruments to reduce its exposure to foreign currency exchange risk.

During the year ended April 30, 2000, the Company had sales to four customers which represented 13%, 12%, 11% and 11% of total revenues, respectively. During the eleven months ended March 31, 2001, no single customer represented more than 10% of total revenues.

Cash, restricted cash, accounts receivable, accounts payable, accrued liabilities, notes payable and loans from related parties constitute financial instruments. The carrying value of cash, restricted cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value given the relatively short periods to maturity. The carrying value of notes payable approximates its fair value because its interest rates and other terms are comparable to those currently available to the Company in the marketplace. The fair value of loans from related parties cannot be ascertained due to the related party nature of the debt.

(m) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

3. CAPITAL ASSETS

Capital assets consist of the following at March 31, 2001 and April 30, 2000 (in thousands):

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
March 31, 2001:			
Computer equipment and software	\$ 4,929	\$ 712	\$ 4,217
Furniture and fixtures	738	73	665
Leasehold improvements	1,078	69	1,009
	<u>\$ 6,745</u>	<u>\$ 854</u>	<u>\$ 5,891</u>
April 30, 2000:			
Computer equipment and software	\$ 448	\$ 24	\$ 424
Furniture and fixtures	66	3	63
Leasehold improvements	169	2	167
Construction work-in-process	148	—	148
	<u>\$ 831</u>	<u>\$ 29</u>	<u>\$ 802</u>

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

4. WARRANTS

Special Warrants

During the year ended April 30, 2000, the Company raised \$9.0 million and \$29.7 million through a private placement of 6,000,000 Series A Special Warrants, at a price of \$1.50 per warrant, and 3,000,000 Series B Special Warrants, at a price of \$9.90 per warrant, respectively, excluding issuance costs of \$3.1 million. Each Series A Special Warrant was exercisable, for no additional consideration, into one common share and one-half Series A Warrant upon receipt of the final prospectus in each of the respective provinces in Canada. Each Series B Special Warrant was exercisable, for no additional consideration, into 1.1 common shares and 0.55 Series B Warrant upon receipt of the final prospectus in each of the respective provinces in Canada. Each full Series A Warrant and Series B Warrant entitled the holder to purchase one common share of the Company at a price of \$1.80 and \$15.00 per common share, respectively.

In addition, the Company issued 250,000 Series A Broker Warrants and 260,995 Series B Broker Warrants in conjunction with the Series A and B Special Warrants issuance. Of the Series A Broker Warrants, 200,000 were exercisable, at no cost, into one Series A Broker Option entitling the holder thereof to purchase one common share at a price of \$1.60. The remaining 50,000 Series A Broker Warrants were exercisable, at no cost, into one Series A Broker Option entitling the holder thereof to purchase, at a price of \$1.60, one common share and one-half Series A Warrant. Each Series B Broker Warrant was exercisable, at no cost, into one Series B Broker Option entitling the holder thereof to purchase, at a price of \$9.90, one common share and one-half Series B Warrant. The Company did not receive any proceeds from the issuance of the Series A Broker Warrants and Series B Broker Warrants.

On March 16, 2000, 426,000 Series C Special Warrants were issued to a third-party consultant for services rendered prior to the issuance date. Of the total Series C Special Warrants, 300,000 were issued directly to the consultant with the balance issued to two directors of the Company in repayment of an aggregate of 126,000 common shares owed by the consultant to those individuals. Each Series C Special Warrant was exercisable, at no cost, into one common share upon receipt of the final prospectus in each of the respective provinces in Canada. The Company did not receive any proceeds from the issuance of the Series C Special Warrants.

The Company received receipt of the final prospectus in each of the provinces of Alberta and British Columbia in July 2000, and receipt of the final prospectus from the province of Ontario in December 2000. Upon receipt, the Company allocated the net proceeds from the Special Warrants to share capital. In connection with the receipt of the final prospectus, the Company issued, upon exercise of the Series A and Series B Special Warrants, 3,000,000 Series A Warrants and 1,650,000 Series B Warrants, respectively. In addition, the Series A Broker Warrants and Series B Broker Warrants were exercised and the Company issued 250,000 Series A Broker Options and 260,995 Series B Broker Options, respectively. During the eleven months ended March 31, 2001, the Company issued 50,000 Series A Warrants and 39,000 Series B Warrants in connection with the exercise of 250,000 Series A Broker Options and 78,000 Series B Broker Options, respectively.

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

4. WARRANTS (Continued)

Warrant activity is summarized as follows:

	Number of special warrants	Number of other warrants	Total warrants	Weighted-average exercise price
Balance at May 1, 1999	—	2,735,000	2,735,000	\$ 0.20
Issued	9,936,995	—	9,936,995	—
Exercised for cash	—	(2,350,001)	(2,350,001)	0.12
Expired	—	(62,499)	(62,499)	0.18
Balance at April 30, 2000	9,936,995	322,500	10,259,495	0.02
Issued	—	5,249,995	5,249,995	6.44
Exercised for no consideration	(9,936,995)	—	(9,936,995)	—
Exercised for cash	—	(3,694,934)	(3,694,934)	1.87
Expired	—	(35,566)	(35,566)	12.93
Balance at March 31, 2001	—	1,841,995	1,841,995	\$ 14.49

5. SHARE CAPITAL

An unlimited number of common shares without par value are authorized. Common share activity during the year ended April 30, 2000 and the eleven months ended March 31, 2001 is as follows:

	The Company		NVS	
	Number of shares	Amount (in thousands)	Number of shares	Amount (in thousands)
Balance at May 1, 1999	5,662,429	\$ 25,330	13,525,000	\$ 13
Issued for cash in private placements	2,860,000	720	—	—
Issued for cash upon exercise of stock options	550,600	231	—	—
Issued for cash upon exercise of warrants	2,350,001	292	—	—
Issued to acquire NVS (Note 1)	15,625,000	(303)	—	—
Continuation of NVS share capital (Note 1)	—	13	—	(13)
Issued to acquire NVKK (Note 1)	375,000	(45)	—	—
Elimination of NVS shares and Net Resources share capital (Note 1)	—	(26,151)	(13,525,000)	—
Balance at April 30, 2000	27,423,030	87	—	—
Issued for cash upon exercise of stock options	303,958	864	—	—
Issued upon receipt of final prospectus for Special Warrants from provinces of British Columbia, Alberta and Ontario	9,726,000	35,413	—	—
Issued for cash upon exercise of warrants	3,694,934	6,894	—	—
Issued to acquire Tracer (Note 1)	600,000	9,600	—	—
Balance at March 31, 2001	41,747,922	\$ 52,858	—	\$ —

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

5. SHARE CAPITAL (Continued)

Escrowed Shares

In March 2000, in connection with the NVS acquisition, 10,425,000 common shares were deposited in escrow and were to be released as to one-third on September 16, 2000, March 16, 2001 and September 16, 2001. In July 2000, in order to obtain receipt of the final prospectus from the Province of Ontario, the Company entered into an additional escrow agreement covering 5,285,686 common shares. Of the July 2000 escrowed common shares, 4,956,686 related to the NVS acquisition and were redeposited under this escrow agreement with an additional 329,000 common shares (or securities convertible into such shares) held by officers and directors of the Company. The related common shares will be released as to one-third on each of July 13, 2001, July 13, 2002 and July 13, 2003. The total common shares released during the eleven months ended March 31, 2001 was 3,645,542.

6. STOCK-BASED COMPENSATION

The Company has a stock option plan (the Plan) pursuant to which the Board of Directors of the Company may grant nontransferable stock options to purchase common shares of the Company to directors, officers, employees, advisors and consultants. As of March 31, 2001 and April 30, 2000, 3,809,042 and 3,328,704 common shares, respectively, have been reserved for issuance under this plan. The maximum number of common shares which may be reserved for issuance to any one person under the Plan is 5% of the common shares outstanding at the time of grant (calculated on a nondiluted basis). The options vest generally over one to four years and are exercisable for a maximum term of ten years.

In May 2000, the Company filed an application with the Toronto Stock Exchange (TSE) to reprice 1,698,000 stock options from \$18.85 to \$12.35 per share. The Company received TSE approval and subsequently shareholder approval for the repricing in October 2000.

A summary of the status of the Company's stock option plan is as follows:

	<u>Number of shares</u>	<u>Weighted-average exercise price</u>
Outstanding at May 1, 1999	490,667	\$ 0.35
Granted	2,472,504	11.10
Exercised	(550,600)	0.42
Cancelled	<u>(71,667)</u>	1.53
Outstanding at April 30, 2000	2,340,904	11.65
Granted	2,059,000	13.92
Exercised	(303,958)	2.84
Cancelled	<u>(760,908)</u>	13.26
Outstanding at March 31, 2001	3,335,038	<u>\$ 10.33</u>
Exercisable at March 31, 2001	<u>1,710,131</u>	<u>\$ 9.53</u>

**BAKBONE SOFTWARE INCORPORATED
AND SUBSIDIARIES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

6. STOCK-BASED COMPENSATION (Continued)

The following table summarizes information regarding stock options outstanding and exercisable at March 31, 2001:

<u>Exercise prices</u>	<u>Options outstanding</u>			<u>Options exercisable</u>	
	<u>Number outstanding</u>	<u>Average remaining contractual life (years)</u>	<u>Weighted-average exercise price</u>	<u>Number exercisable</u>	<u>Weighted-average exercise price</u>
\$ 0.95 - 1.20	316,400	1.4	\$ 1.04	316,400	\$ 1.04
5.65 - 6.16	757,676	6.1	5.92	390,376	6.02
12.35 - 12.50	1,477,458	7.8	12.38	306,875	12.41
13.00 - 14.20	694,000	2.4	13.94	674,729	13.93
18.85	89,504	8.9	18.85	21,751	18.85
	<u>3,335,038</u>		<u>\$ 10.33</u>	<u>1,710,131</u>	<u>\$ 9.53</u>

During the year ended April 30, 2000, in order to attract and retain certain sales and executive employees, NVS issued 675,000 restricted common shares (the incentive shares) as additional compensation to existing and targeted employees. Upon the acquisition of NVS on March 16, 2000, these shares were exchanged for restricted common shares of the Company. The incentive shares are subject to vesting over a three to four-year period and will be distributed to each employee only if employed on each of the associated vesting dates.

During the year ended April 30, 2000, as consideration for services rendered, the Company granted 722,000 stock options to advisors and consultants (the advisors options) at prices ranging from \$0.95 to \$14.20 per share. Of the stock options granted, 572,000 were fully vested upon grant and related to services already rendered, with the remaining 150,000 stock options vesting based on performance milestones specified in the consulting agreement. The related milestones were not met by the end of the contractual period and none of the 150,000 stock options vested.

During the eleven months ended March 31, 2001, the Company granted 475,000 stock options to advisors at prices ranging from \$6.16 to \$13.00 per share. Of the stock options granted, 25,000 were fully vested upon grant, 350,000 vest generally over one year based on the terms of the consulting agreements and 100,000 were to vest based on specified performance milestones. However, these milestones were not met, and none of the 100,000 stock options vested.

7. INCOME TAXES

For the eleven months ended March 31, 2001 and the year ended April 30, 2000, there was no provision for current or deferred income taxes. The income tax effects of the temporary differences

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March 31, 2001 and April 30, 2000

7. INCOME TAXES (Continued)

that give rise to significant portions of the Company's future tax assets as of March 31, 2001 and April 30, 2000 are presented below by tax jurisdiction (in thousands):

	<u>Canada</u>	<u>United States</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Total</u>
March 31, 2001:					
Future tax assets:					
Accruals	\$ —	\$ 185	\$ —	\$ —	\$ 185
Net operating losses	<u>368</u>	<u>10,232</u>	<u>1,279</u>	<u>112</u>	<u>11,991</u>
	368	10,417	1,279	112	12,176
Less valuation allowance	<u>(368)</u>	<u>(10,417)</u>	<u>(1,279)</u>	<u>(102)</u>	<u>(12,166)</u>
Deferred tax assets	—	—	—	10	10
Future tax liabilities — capital assets	—	—	—	(10)	(10)
Net future tax assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
April 30, 2000:					
Future tax assets — net operating losses . . .	\$ 40	\$ 396	\$ 94	\$ 59	\$ 589
Less valuation allowance	<u>(40)</u>	<u>(396)</u>	<u>(94)</u>	<u>(56)</u>	<u>(586)</u>
Deferred tax assets	—	—	—	3	3
Future tax liabilities — capital assets	—	—	—	(3)	(3)
Net future tax assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Company has established a valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. Management periodically evaluates the recoverability of the deferred tax assets. At such time as it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced.

A reconciliation of the expected income tax benefit to the actual income tax expense reported in the consolidated statements of operations and accumulated deficit is as follows (in thousands):

	<u>2001</u>	<u>2000</u>
Computed expected income tax benefit at Canadian statutory income tax rate of 43.6%	\$ (14,265)	\$ (573)
Foreign tax rate differential	1,637	79
Permanent differences	21	—
Nondeductible intangibles	1,027	—
Unrecognized recoveries from losses	<u>11,580</u>	<u>494</u>
Actual income tax expense	<u>\$ —</u>	<u>\$ —</u>

The net change in the total valuation allowance for the eleven months ended March 31, 2001 and the year ended April 30, 2000 was an increase of \$11,580,000 and \$586,000, respectively. In assessing the

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March 31, 2001 and April 30, 2000

7. INCOME TAXES (Continued)

realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical operating results and projections of future taxable income, management has determined that it is more likely than not that the portion of deferred tax assets not utilized through the reversal of deferred tax liabilities will not be realized. Accordingly, the Company has recorded a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company has Canadian noncapital losses of \$779,000 at March 31, 2001 which may be available to apply against future Canadian taxable income. These losses begin to expire in 2007.

BakBone Software, Inc. has net operating loss carryforwards of US\$16,298,000 at March 31, 2001 that are available as reductions to its taxable income in future years. These carryforwards will begin to expire in 2020.

NVHL has trade loss carryforwards of UK£1,300,000 at March 31, 2001 that are available as reductions to its taxable income in future years. These carryforwards generally have an indefinite carryforward period.

NVKK has net operating loss carryforwards of ¥42,250,000 at March 31, 2001 that are available as reductions to its taxable income in future years. These carryforwards will begin to expire in 2003.

8. RESTRICTED CASH

During the eleven months ended March 31, 2001, in conjunction with a facility lease, the Company was required to enter into a standby letter of credit with a bank whereby \$1.2 million was deposited into an investment account to collateralize the letter. As the lease requires the Company to maintain the letter of credit until January 2003, the related restricted cash amount has been classified as long-term.

The Company maintains credit cards for use by certain executives for business-related expenses. In order to obtain the credit cards, the issuing bank required the Company to cash-secure the total credit limits. As such, during the eleven months ended March 31, 2001, \$142,000 was deposited into an investment account at the issuing bank. As the Company may terminate the credit card agreement at any time, the related restricted cash amount has been classified as a current asset.

9. RETIREMENT PLANS

During the eleven months ended March 31, 2001, the Company established a voluntary deferred contribution plan for employees in the United States (the U.S. Plan) in accordance with the provisions of the Internal Revenue Code Section 401(k). The U.S. Plan allows participants to contribute up to 15% of their annual salary, subject to certain limitations, as provided by federal law. Each year, the Company's Board of Directors determines the amount, if any, of the Company's matching contributions. There were no matching contributions during the eleven months ended March 31, 2001.

**BAKBONE SOFTWARE INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001 and April 30, 2000

9. RETIREMENT PLANS (Continued)

The Company maintains a voluntary defined contribution plan for employees in the United Kingdom (the U.K. Plan). The U.K. Plan allows participants to defer a minimum of 3% of their annual salary with a maximum contribution ranging from 17.5% to 40% of salary, depending on the age of the participant. In addition, the U.K. Plan calls for the Company to annually match 5% of each participant's salary; these matching contributions vest immediately. During the eleven months ended March 31, 2001 and the year ended April 30, 2000, the Company contributed \$115,000 and \$8,000, respectively.

The Company currently maintains no retirement plans for employees working in Japan and Canada.

10. NOTES PAYABLE

The Company has entered into notes payable (notes) and a line of credit with banks in the ordinary course of business. The following is a summary of the Company's notes and line of credit at March 31, 2001 (in thousands):

The following notes were entered into between Tracer KK and a Japanese bank and, as such, are payable in Japanese yen:

An unsecured five-year note at 2.50% interest, dated February 1997, and having a monthly payment of \$1.0. A principal of Tracer KK has personally guaranteed this note	\$ 12
An unsecured five-year note at 2.50% interest, dated February 1998, and having a monthly payment of \$1.0. A principal of Tracer KK has personally guaranteed this note	24
An unsecured seven-year note at 2.50% interest, dated June 1998, and having a monthly payment of \$1.5. A principal of Tracer KK has personally guaranteed this note	77
An unsecured five-year note at 2.325% interest, dated March 2000, and having a monthly payment of \$6.2. A principal of Tracer KK has personally guaranteed this note	299

The following line of credit was entered into between the Company and a bank and is payable in U.S. dollars:

In February 2001, the Company obtained an unsecured line of credit and fully borrowed the available proceeds of \$3,942 (US\$2,500). The line of credit bears an interest rate of 10% and matures in August 2001. If not repaid upon maturity, the amount borrowed plus accrued interest will be converted into common shares of the Company based on the closing price of the Company's stock on the Toronto Stock Exchange on the maturity date	3,942
Total	4,354
Less current portion	(4,058)
Long-term portion	<u>\$ 296</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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10. NOTES PAYABLE (Continued)

Principal maturities for the Company's notes and line of credit for years ending March 31 are as follows (in thousands):

2002.....	\$ 4,058
2003.....	106
2004.....	93
2005.....	93
2006.....	<u>4</u>
Total.....	<u>\$ 4,354</u>

11. RELATED PARTY TRANSACTIONS

A director of the Company is a partner of a law firm that provides legal services to the Company. During the eleven months ended March 31, 2001 and the year ended April 30, 2000, the Company paid the associated law firm \$406,000 and \$278,000, respectively, relating to the services rendered.

A director of the Company provided certain consulting and legal advice in connection with the special warrant offering and other operations of the Company. During the eleven months ended March 31, 2001 and the year ended April 30, 2000, the Company paid the director \$94,000 and \$99,000, respectively, relating to the services rendered.

A director of the Company provides certain consulting and investor relations services to the Company. During the eleven months ended March 31, 2001 and the year ended April 30, 2000, the Company paid the director \$105,000 and \$129,000, respectively, relating to the services rendered.

Prior to the acquisition of NVKK, two directors and officers of the Company provided loans to NVKK. These loans have no maturity date and are interest-free. At March 31, 2001 and April 30, 2000, the balance owed to these individuals totaled \$118,000 and \$366,000, respectively.

12. COMMITMENTS AND CONTINGENCIES

(a) Litigation

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of management, based in part on the advice of legal counsel, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

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12. COMMITMENTS AND CONTINGENCIES (Continued)

(b) Leases

The Company leases certain facilities and equipment under noncancelable operating and capital leases. Future minimum lease payments for years ending March 31 are as follows (in thousands):

	<u>Capital leases</u>	<u>Operating leases</u>
2002	\$ 373	\$ 2,237
2003	332	2,142
2004	81	1,334
2005	—	1,334
2006	—	852
Thereafter	<u>—</u>	<u>811</u>
Total minimum lease payments	786	<u>\$ 8,710</u>
Less amount representing interest	<u>(105)</u>	
Present value of net minimum lease payments, including current portion of \$302	<u>\$ 681</u>	

Rent expense for the eleven months ended March 31, 2001 and the year ended April 30, 2000 was \$1.8 million and \$45,000, respectively.

13. SEGMENT INFORMATION

Management has determined that the Company operates in two segments, which are the Company's two product lines, NetVault and MagnaVault. Revenues are generated from the licensing of software and sale of support services. Total assets, capital expenditures, depreciation and amortization, interest income and operating expenses are not disclosed by operating segment as they are not specifically related to a particular product line. The following table represents a summary of revenues of the

**BAKBONE SOFTWARE INCORPORATED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. SEGMENT INFORMATION (Continued)

product line operating segments for the eleven months ended March 31, 2001 and the year ended April 30, 2000 (in thousands):

	<u>2001</u>	<u>2000</u>
Revenues		
Licensing:		
NetVault	\$ 3,602	\$ 350
MagnaVault	<u>2,726</u>	<u>—</u>
Total	<u>6,328</u>	<u>350</u>
Services:		
NetVault	800	122
MagnaVault	<u>391</u>	<u>—</u>
Total	<u>1,191</u>	<u>122</u>
Other	<u>10</u>	<u>11</u>
Total revenues	<u>\$ 7,529</u>	<u>\$ 483</u>

The following tables represent a summary of revenues, capital assets and intangibles by major geographic region as of and for the eleven months ended March 31, 2001 and as of and for the year ended April 30, 2000 (in thousands):

	<u>2001</u>	<u>2000</u>
Revenues		
Licensing:		
Europe	\$ 603	\$ 46
Asia	3,801	304
North America	<u>1,924</u>	<u>—</u>
Total	<u>6,328</u>	<u>350</u>
Services:		
Europe	417	90
Asia	301	32
North America	<u>473</u>	<u>—</u>
Total	<u>1,191</u>	<u>122</u>
Other — Asia	<u>10</u>	<u>11</u>
Total revenues	<u>\$ 7,529</u>	<u>\$ 483</u>

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13. SEGMENT INFORMATION (Continued)

	<u>Europe</u>	<u>Asia</u>	<u>North America</u>	<u>Total</u>
Identifiable assets as of March 31, 2001:				
Capital assets, net	\$ 802	\$ 535	\$ 4,554	\$ 5,891
Intangibles, net	<u>2,690</u>	<u>—</u>	<u>9,657</u>	<u>12,347</u>
Identifiable assets as of April 30, 2000:				
Capital assets, net	\$ 393	\$ 32	\$ 377	\$ 802
Intangibles, net	<u>4,129</u>	<u>—</u>	<u>—</u>	<u>4,129</u>

14. SUBSEQUENT EVENT

In May 2001, the Company completed a private placement of 3,000,000 Special Warrants at a price of \$5.00 per Special Warrant for gross proceeds of \$15 million. Each Special Warrant is exercisable, for no additional consideration, into one common share and one-half share purchase warrant upon receipt of a final prospectus to be filed in the Provinces of Alberta and British Columbia. Each full share purchase warrant entitles the holder to purchase one common share at \$7.50 and expires on the earlier of (i) 30 days after the date on which the 10-day weighted-average price of the Company's common shares traded on the TSE exceeds \$10.00 and (ii) November 15, 2001. The Special Warrants were sold to existing shareholders and Company management.

BAKBONE CORPORATE DIRECTORY

Board of Directors

Archie J. Nesbitt	Chairman
Anthony R. Cerqueira	Director
Harry Frederick John Brayne	Director
J.G. (Jeff) Lawson	Director
Neil M. MacKenzie	Director
Jeffrey L. Taylor	Director

Officers

Keith Rickard	CEO and President
Anthony R. Cerqueira	Executive Vice President
Harry Frederick John Brayne	Managing Director
Fabrice Helliker	Vice President, Engineering
Andrew Unsworth	Managing Director E.M.E.A.
Howard Weiss	Managing Director, Pacific Rim

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Auditors

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Calgary, AB T2P 3N9

Registrar and Transfer Agent

CIBC Mellon Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, AB T2P 2Z1

Stock Listed

Toronto Stock Exchange – (BKB)

Shareholder Communications

If you own BakBone stock or if your stock is held in a brokerage account and you would like to receive financial reports and other communications directly from the Company, please write to:

BakBone Software, Inc.
Attn: Investor Relations
Suite 2005
355 - 4th Avenue, S.W.
Calgary, AB T2P 0J1

Kindly indicate the number of the Company shares you own and the name of the brokerage firm that administers your account. If you move, please notify the Company of your new address.

This annual report contains forward-looking statements reflecting management's current forecast of certain aspects of the company's future. It is based on current information that we have assessed, but which by its nature is dynamic and subject to rapid and even abrupt changes. Forward-looking statements may include statements by BakBone Software regarding:

- Growth projections for the company, including revenues and net income
- The projected rollout of upgraded versions of our products.

BakBone's actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with our business, including, but not limited to:

- Our dependence on projected purchases by our major customers
- Our ability to establish and maintain contractual arrangements with storage-centric value-added resellers ("channel partners")
- Competition in all aspects of our business
- Changes in product or service profit margins due to pricing changes driven by variations in customer demand, competition, or unforeseen factors
- The effect of general economic, credit and capital market conditions on our business
- Our failure to compete or successfully operate planned expansion projects.

Our forward-looking statements should be considered in the context of these and other risk factors disclosed in our most recent report filed with the Canadian Securities Administrators, which is available on the SEDAR disclosure system (www.sedar.com), or with the United States Securities and Exchange Commission, which is available on the EDGAR disclosure system (www.sec.gov/edgar).

All future written and oral forward-looking statements made by us or on our behalf are also subject to these factors. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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