Preliminary Prospectus Dated May 29, 1987

This prospectus constitues a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representative to the contrary is an offence.

Initial Public Offering **No 1108**

PANHANDLER group inc.

$2,640,000
960,000 Common Shares and
960,000 Series A Share Purchase Warrants

Offered in Units, each Unit consisting of One Common Share and One Series A Share Purchase Warrant

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Series A Share Purchase Warrants

Each Series A Share Purchase Warrant (the "Warrant") will entitle the holder upon payment of an exercise price of $3.00 on or before November 15, 1988 to purchase one Common Share. See "Warrants" on page 15. Of the gross proceeds per Unit, the Company will allocate $2.50 to the Common Share and $0.25 to the Warrant. See "Tax Aspects" on pages 20 and 21.

Price: $2.75 per Unit

	Price to the Public	Underwriter's Fee(1)	Net Proceeds to the Company (2)
Per Unit	$2.75	$ 0.21	$ 2.54
Total	$2,640,000	$198,000	$2,442,000

(1) The Company has granted the Underwriter an option (the "Green Shoe Option") to increase the number of Units offered hereby at the same offering price per Unit by an amount equal to 10% of the number of Units offered (the "Additional Units"), which if fully exercised would provide net proceeds to the Company of $244,200 after payment of the Underwriter's fee of $19,800 in respect of the issuance of the Additional Units. The Company has granted the Underwriter a further option, exercisable prior to April 10, 1989, to purchase 10 % of the number of Common Shares issued hereunder and up to 10 % of the number of any shares issued in connection with an equity financing for which the Underwriter has acted as agent or as underwriter or the Company (the "Compensation Option"). The Common Shares subject to the Compensation Option are qualified for distribution under this prospectus. Reference is made to "Plan of Distribution" on page 18 .

(2) Before deducting expenses of the issue estimated at $125,000 which, together with the Underwriter's fee, will be paid from the general funds of the Company.

Additional Offering

The Underwriter conditionally offers, if the Green Shoe Option is exercised, up to 96,000 Additional Units at a price per Unit of $2.75. None of the Additional Units will be sold until the offering of 960,000 Units has been fully subscribed for. The Additional Units are qualified for distribution under this prospectus. Reference is made to "Plan of Distribution" on page 18.

There is presently no market for the Units. Accordingly, the offering price of the Units has been fixed by negotiation between the Company and the Underwriter. Of the purchase price per Unit, $2.50 has been allocated per Common Share and $0.25 has been allocated per Warrant. The price of each Common Share issued hereunder exceeds the net tangible book value thereof as at May 29, 1987 by $0.45 after giving effect to this issue (excluding proceeds from the sale of Additional Units and from the exercise of the Compensation Option), representing a dilution factor of 18%. **There are certain risk factors associated with an investment in the Units.** See "Dilution Per Common Share" on page 15 and "Risk Factors" on page 20.

In the opinion of Burkman, Twiss & McNevin, counsel for the Company, the Common Shares and Warrants will be qualified investments for certain trusts under the Income Tax Act (Canada) and the Common Shares and Warrants will qualify as small business properties for registered pension plans and other statutory retirement plans under that act. See "Eligibility for Investment" on page 22.

The Underwriter, as principal, conditionally offers the Units, subject to prior sale, if, as and when issued and delivered by the Company and accepted by the Underwriter in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Company by Burkman, Twiss & McNevin, Toronto and on behalf of the Underwriter by Smith, Lyons, Torrance, Stevenson & Mayer, Toronto.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that definitive share certificates evidencing the Common Shares and certificates evidencing the Warrants will be available for delivery on closing which is expected to be on July 31, 1987, but not later than •, 1987.

This is a preliminary prospectus relating to these securities, a copy of which has been filed with the securities commission or similar regulatory authority in each of Alberta, British Colombia and Ontario, but which has not yet become final for the purpose of a distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold to, nor may offers to buy be accepted from, residents of such jurisdictions prior to the time a receipt for the final prospectus is issued by the appropriate securities commission or similar regulatory authority.

PANHANDLER
group inc.

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PROSPECTUS SUMMARY

The following is a summary only of certain matters relating to the Company and the offering. Prospective purchasers of the Units hereby offered are advised to read this prospectus in its entirety.

PANHANDLER GROUP INC.
The Offering

Issue:	960,000 Units, each Unit consisting of one Common Share and one Warrant.
Amount:	$2,640,000.
Additional Units:	96,000 Additional Units, each Additional Unit consisting of one Common Share and one Warrant which may be offered in the event of the exercise of the Green Shoe Option.
Warrants:	Each Warrant entitles the holder to purchase one Common Share for $3.00 on or before November 15, 1988.
Price:	$2.75 per Unit of which $2.50 is attributable to the price of the Common Share and $0.25 is attributable to the price of the Warrant.
Closing Date:	Expected to be on July 31, 1987 but not later than •, 1987.
Use of Proceeds:	The net proceeds to the Company from the offering of 960,000 Units, after deducting expenses of the offering and the Underwriter's fee, are expected to be $2,317,000 of which $850,000 will be The balance of the proceeds will be used to increase working capital, to expand franchise activities and to expand the operations of the Company into the import and wholesale distribution business. (See "Use of Proceeds" on page 18.) If the Green Shoe Option is fully exercised, the Company will receive net proceeds of $244,200 after payment of the Underwriter's fee of $19,800 in respect of the issuance of the Additional Units.
Dilution:	The price of each Common Share offered hereunder exceeds the net tangible book value thereof as at May 29, 1987, after giving effect to this issue (excluding proceeds from the sale of Additional Units and from the exercise of the Compensation Option), by $0.45 representing a dilution factor of 18%. (See "Dilution Per Common Share" on page 15.)
Dividend Policy:	The declaration and payment of dividends will be decided by the board of directors from time to time, based upon and subject to the Company's earnings, financial requirements and other conditions prevailing at the time. (See "Strategy for Expansion" on page 10 and "Dividend Policy" on page 18.)
Risk Factors:	The Company's success depends upon its ability to sell additional franchises and to generate additional royalties. This success will be influenced by competition in the giftware market and the ability of the Company to develop and sell new franchise concepts. There is a potential conflict of interest between LIV and the Company. (See "Risk Factors" on page 20 and "Dilution Per Common Share" on page 15.)
Eligibility for Investment:	In the opinion of counsel for the Company, on the date of closing of this offering, the Common Shares and Warrants will be qualified investments for certain trusts under the Income Tax Act (Canada) and will qualify its small business properties for registered pension plans and other statutory retirement plans under that act. (See "Eligibility for Investment" on page 22.)

The Company

Panhandler Group Inc. was incorporated on April 14, 1987 for the purpose of acquiring the franchise division of LIV and entering into franchise agreements with respect to the 12 stores currently operated by LIV. Concurrent with the closing of this offering, the Company will become the franchisor of The Panhandler, Rafters and Abington's Animals stores which are currently operating out of 70 retail locations. In addition, the Company will have the exclusive right to sell franchises for additional stores and to own and operate additional stores.

Selected Financial Information For The Franchise Division of LIV

	Seven Months Ended March 31		Year Ended August 31	
	1987	**1986**	**1986**	**1985**
	(unaudited)			
SALES				
Franchised Stores	$9,845,753	$9,799,968	$14,509,559	$13,634,861
LIV-owned Stores	2,290,650	1,984,768	3,292,867	1,797,985
	$12,136,403	$11,784,736	$17,802,426	$15,432,846
REVENUE				
Royalty Income	$546,103	$542,777	$815,709	$801,330
Sale of Franchises	39,000	49,700	104,700	133,600
Distribution Income	62,360	19,898	24,849	13,678
	647,463	612,375	945,258	948,608
EXPENSES	336,946	308,579	498,347	427,399
NET EARNINGS BEFORE INCOME TAXES	$310,517	$303,796	$446,911	$521,209

Note: The above information has been extracted from the consolidated financial information of LIV. LIV owned and operated a number of stores during the period shown. Sales from these stores have been included as LIV will pay royalties to the Company on such sales following the purchase of the Franchise Operation. However, income and expenses related to the operation of these stores have been excluded from the above selected financial information as LIV will operate such stores as franchise of the Company. Reference is made to "Discussion of Operating Results of the Franchise Division of LIV" on page 11.

Financial Forecast

For the Year Ended August 31, 1988

SALES

Franchised Stores (1). **$20,305,901**

REVENUE

Royalty Income (1) $1,102,933
Franchise Fees 135,000
Distribution Income. 237,818
Interest (2) 95,200
. . . . **$1,570,951**

EXPENSES	
	649,417
NET EARNINGS BEFORE INCOME TAXES	921,534
INCOME TAXES	494,678
NET EARNINGS	**$426,856**
EARNINGS PER COMMON SHARE (3)	
Basic	$ 0.35
Fully diluted	$ 0.19

Note:

(1) Includes sales and royalties related to the 12 stores, which LIV will operate as a franchisee of the Company.

(2) Includes interest earned on proceeds of this offering and not immediately expended

(3) The basic earnings per Common Share have been calculated on the basis of 1,140,000 Common Shares outstanding and after allowance for the payment of 7% non-cumulative dividends on the Special Shares. The fully diluted earnings per share have been calculated on the basis that 497,140 Special Shares were converted into Common Shares as at September 1, 1987, representing the number of Special Shares that could be converted based on the earnings forecasted for the year ended August 31, 1988, and that the 960,000 Warrants were exercised as at September 1, 1987. No allowance has been made for the issuance of Common Shares under the Compensation Option and the Green Shoe Option. (See "Earnings Per Share" under "Summary of Significant Forecast Assumptions" on page 14.)

'I'he reader is cautioned that some assumptions used in the preparation of the Financial Forecast, although considered reasonable by the Company at the time of preparation of the Financial Forecast, may prove to be incorrect. The reader is further cautioned that the actual results achieved during the period of the Financial Forecast will likely vary from the forecast results and the variations may be material. For a discussion of the assumptions on which the Financial Forecast is based, reference is made to "Financial Forecast" on pages 12 to 14.

THE COMPANY

Panhandler Group Inc. (the "Company") was incorporated under the laws of the Province of Ontario by articles of incorporation on April 14, 1987. Articles of amendment were filed on 9, 1987 for the purpose of creating the Special Shares.

Pursuant to an agreement dated *, 1987, between The LIV Group Incorporated ("LIV") and the Company (the "Panhandler Agreement"), the Company agreed to acquire, concurrent with the closing of this offering, the franchise division of LIV and to enter into franchise agreements with respect to 12 stores Currently operated by LIV (collectively the "Franchise Operation"). Upon the acquisition of the Franchise Operation, the Company will become the franchisor of The Panhandler, Rafters and Abington's Animals ("Abingtons") stores which currently operate out of 70 retail locations. The Company will have the largest number of retail locations of any gift and kitchenware chain in Canada. (See "The Panhandler Agreement" on this page and page 7).

The registered and principal office of the Company is located at Unit 3, 4699 Keele Street, Toronto, Ontario, M3J 2N8.

BUSINESS OF THE COMPANY

The Company was founded by Edward Kenneth Loyst for the purpose of acquiring the Franchise Operation. Accordingly, the Company will carry on business as a retail consulting firm, the franchisor of The Panhandler, Rafters and Abingtons stores and a distributor of merchandise to its franchisees.

The Panhandler Agreement

Concurrent with the closing of this offering, the Company will acquire the Franchise Operation in tccordance with the Panhandler Agreement, the material terms of which are summarized below.

The Panhandler Agreement provides for the acquisition by the Company of: (i) the interest of LIV in the existing 58 franchise agreements, including the entitlement to all future royalties arising therefrom; (ii) assignments of the existing 63 store leases relating to the Franchise Operation; (iii) all right, title and interest of LIV in and to the assets used in connection with the Franchise Operation, including all trade marks, trade names and designs relating to The Panhandler, Panhandler, Rafters, Abingtons and Abington's Animals; and (iv) the exclusive right to sell additional franchises, including the right to receive all future franchise fees and royalties, and to open and manage new stores. In connection with the 12 stores currently operated by LIV (the "LIV Stores"), the Company will enter into standard franchise agreements with LIV, whereby LIV will operate such stores as franchisee and pay royalties equal to 6% of the gross sales of such stores to the Company and the payment of these royalties is secured by a debenture on the assets of LIV for a period of three years.

The Panhandler Agreement also provides that the Company will take an assignment of the lease relating to LIV's head office premises located at Unit 3, 4699 Keele Street, Toronto, and will acquire all of the furniture, fixtures, equipment and leasehold improvements situate at such location. The Company will then sublet approximately 25% of such head office space to LIV from which LIV will manage its other operations. With respect to the 63 store leases to be acquired by the Company, in the event that a landlord refuses to consent to the transfer of any such lease, LIV will hold such lease in trust for the benefit of the Company.

Pursuant to the Panhandler Agreement, the Company will assume responsibility for certain employees, and retain the services of certain other employees, of LIV who are currently engaged in the conduct of the business of the franchise division.

The Company will have the option to acquire all of the LIV Stores within three years of the date of purchase of the Franchise Operation at a purchase price to be determined by negotiation between the Company and LIV and to be confirmed as to fairness by an independent appraiser at the time of exercise of such option. The purchase price for the LIV Stores will be satisfied by the Company issuing to LIV a number of Common Shares which will have a notional value of $2.50 per share.

The Company will also have the option, exercisable for a three year period from the date of purchase of the Franchise Operation, to require LIV to purchase the assets of any franchise which does not meet the performance criteria set out in the applicable franchise agreement (a "Defaulting Franchise"). LIV will be required to operate the Defaulting Franchise in accordance with the terms of the franchise agreement applicable thereto. LIV will be required to pay to the Company royalties equal to the current rate being paid by the franchisee of the Defaulting Franchise, although LIV will not be required to pay a franchise fee upon purchasing the assets of the Defaulting Franchise. Such Defaulting Franchise may be closed or sold by mutual agreement of the Company and LIV. The proceeds of any such sale shall be applied to the payment of costs of the Company and LIV respectively, incurred in connection with the acquisition, operation and resale of the Defaulting Franchise. Any excess proceeds shall be split equally as between the Company and LIV. In the event that the Company exercises its option to acquire the LIV Stores as discussed above, the Company must also purchase any Defaulting Franchises operated by LIV at a purchase price determined on the same basis as the purchase price for the LIV Stores, and LIV will be relieved from all obligations with respect to Defaulting Franchises after the date of such purchase.

As consideration for the purchase of the Franchise Operation, LIV will receive 1,650,000 Special Shares of the Company with a stated value of $0.25 per Special Share and a cash payment in the amount of $850,000, for a total consideration of $ 1,262,500. The transfer of the Franchise Operation will take place pursuant to Section 85(1) of the Income Tax Act (Canada), such that the Franchise Operation will be acquired at a tax cost to the Company of $850,000.

The purchase price and method of payment for the Franchise Operation was established by the Company, LIV and the Underwriter on the basis of the historical earnings of the franchise division of LIV. The purchase price is approximately four times the average after-tax earnings of the franchise division of LIV in the 1985 and 1986 fiscal years on a pro forma basis reflecting the inclusion of an amount equal to the royalties which would have been received from sales by the LIV Stores as if royalties had been payable on such sales.

History of the Franchise Operation

LIV was created in 19178 as a result of an amalgamation of The Panhandler Shoppes Limited, The Lighting Guild of Canada Limited and Living Lighting of Canada Limited, each of which companies was founded by Mr. Edward K. Loyst. Living Lighting of Canada Limited, founded in 1968, developed North America's first chain of franchised residential lighting stores and consisted of 35 stores at the time it was sold in 1981. In recognition of LIV's contribution to the franchise industry, LIV was the first recipient of the "Hall of Fame Award" of The Association of Canadian Franchisors.

The Franchise Operation

The Franchise Operation will carry on business as the franchisor offering for sale to independent entrepreneurs franchises for The Panhandler, Rafters and Abingtons stores. The Franchise Operation will provide consulting assistance to franchisees regarding the sale of giftware, decorative accessories, gourmet specialties and kitchenware at retail stores using a system and methodology of marketing designed and developed by the Franchise Operation and identified by the trade marks and designs The Panhandler, Panhandler, Rafters, Abingtons and Abington's Animals.

The Franchise Operation will have three primary sources of income: the sale of franchises, royalties generated from retail sales by franchisees and the sale of paper and packaging supplies by the Franchise Operation to franchises. In addition, sales to franchisees may be expanded to include a wider range of products as described under "Strategy for Expansion" on page 10. A further source of income may be the operation of any stores established or purchased from Defaulting Franchisees, including the 12 LIV Stores which the Company may acquire pursuant to the exercise of the option contained in the Panhandler Agreement.

The Panhandler and Rafters franchises are currently offered by the Franchise Operation at a price of $25,000.

Additional revenue will be generated by the sale of Abingtons franchises should the concept prove to be marketable. Royalty revenues are expected to be equal to 6% of the weekly gross sales of each franchise (including the LIV Stores unless the Company exercises its option to acquire the LIV Stores). In certain exceptional circumstances, the Franchise Operation may grant a franchisee a temporary reduction or deferral of royalty payments. Currently, only five franchisees are receiving such a reduction or deferral.

THE PANHANDLER

The Panhandler Shoppes Limited was founded in 1974 to develop a nationwide chain of retail gift and gourmet stores and commenced with the opening of "The Panhandler Shoppe" in Hamilton, Ontario. There are presently 45 The Panhandler stores operating in eight of Canada's ten provinces. A new Panhandler franchise is scheduled to open later this year in Oakville.

As originally conceived, The Panhandler stores specialized in kitchen utensils and accessories. Merchandise offered by The Panhandler has since been expanded to include all kitchen accessories and unique gift ideas including:

ceramics, clocks, copperware, crystal, glassware, candles, handicrafts, brassware, woodenware, kitchen utensils, china, wall accessories, cookware, fondue sets, gourmet specialties and bathroom accessories.

The Panhandler stores range in size from 800 to 1500 square feet and are staffed by two to ten persons depending upon the sales volume of the store.

Rafters

In 1980 a different concept of gift store, "Rafters", was introduced of which there are presently 23 locations in operation in Alberta, British Columbia, Ontario and Quebec. Two new Rafters franchises are scheduled to open later this year, one in Calgary and the other in Montreal.

Rafters was developed to offer a wider inventory mix to the consumer attracted to The Panhandler concept. Larger store locations of 1,500 to 3,000 square feet enable Rafters to offer for sale the merchandise marketed by The Panhandler stores as well as coffees and teas, decorative accessories, pictures, furniture, toys, novelties, bathroom accessories and quality giftware.

ABINGTON'S ANIMALS

"Abington's Animals" was added to the Franchise Operation in 1985 with two stores opening in Ontario. A third Abingtons will be opening in Calgary later this year.

The Abingtons stores sell quality collectibles made of diverse materials and shaped in the form of animals or decorated with images of animals. The Franchise Operation is presently investigating the marketability of the Abingtons concept through the two existing stores. Upon evidence of satisfactory performance, a franchise chain similar to The Panhandler and Rafters will be developed. The third Abingtons store which will open in Calgary in the fall of 1987 is part of the investigation of the marketability of the concept.

Until such time as the name Abingtons becomes associated with the product line being, offered through these stores, the name "Abington's Animals" is being used by the stores. It is the intention of the Company to use only the name "Abingtons" once market identification has been established.

Franchise Locations

The following list sets out the location of the 70 stores currently in operation and the 4 stores scheduled to open later this year. Of the 70 stores, LIV owns and operates four The Panhandler, seven Rafters and one Abingtons. On the purchase of the Franchise Operation, these LIV Stores will be operated by LIV as a franchisee of the Company.

ALBERTA

The Panhandler
The Duggan Mall, Camrose
Londonderry Mall, Edmonton (4)
West Edmonton Mall, Edmonton
Peter Pond Shopping Centre, Fort McMurray
Centre Village Mall, Lethbridge
Lloydmall Shopping Centre, Lloydminster
St. Albert Shopping Centre, St. Albert

Rafters
Chinook Centre, Calgary
Deerfoot Mall, Calgary
Market Mall, Calgary (1)
Scotia Fashion Centre, Calgary
South Centre, Calgary

Abingtons
Market Mall, Calgary (1)

BRITISH COLUMBIA

The Panhandler
Harbour Park Shopping Centre, Nanaimo (4)
Surrey Place Mall, Surrey

Rafters
Lougheed Mall, Burnaby (4)
Sevenoaks Shopping Centre, Clearbrook
Orchard Park Mall, Kelowna (4)
Village Green Mall, Vernon (4)

MANITOBA

The Panhandler
Brandon Shoppers Mall, Brandon
Clearspring Shopping Centre, Steinbach (2)
Garden City Shopping Centre, Winnipeg

Rafters
St. Vital Shopping Centre, Winnipeg (4)

NEW BRUNSWICK

The Panhandler
Regent Mall, Fredricton (4)
Highfield Square, Moncton
MacAllister Place, Saint John

NEWFOUNDLAND

The Panhandler
Avalon Mall, St. John's

NOVA SCOTIA

The Panhandler
Micmac Mall, Dartmouth
The Halifax Shopping Centre, Halifax
Historic Properties, Halifax (2)
Highland Square, New Glasgow
Mayflower Mall, Sydney
Truro Mall, Truro

ONTARIO

The Panhandler
Bayfield Mall, Barrie (4)
Quinte Mail, Belleville
Lynden Park Mall, Brantford
Burlington Mall, Burlington
Stone Road Mall, Guelph
Lloyd D. Jackson Square, Hamilton
Cloverdale Mall, Islington
Fairview Park Shopping Centre, Kitchener
Mountainview Mail, Midland (2)
Milton Mall, Milton
Sheridan Mall, Mississauga
Upper Canada Mall, Newmarket
Hopedale Mall, Oakville (1)
Orangeville Mall, Orangeville
Rideau Centre, Ottawa
Grey County Mall, Owen Sound
Pickering Town Centre, Pickering
The Pen Centre, St. Catharines (2)
First Canadian Place, Toronto
Eaton Centre, Toronto
Queen Street E., Toronto (2)
Seaway Mail, Welland
Morningside Mall, West Hill

Rafters
Bramalea City Centre, Bramalea
Cataraqui Town Centre, Kingston (4)
Masonville Place, London (4)

Sparks Street, Ottawa
George Street, Peterborough (2)
Woodbine Centre, Rexdale
Cedarbrae Mall, Scarborough (4)
Delisle Court, Toronto
Thorncliffe Market Place, Toronto
Devonshire Mail, Windsor

Abingtons
St. Laurent Shopping Centre, Ottawa (2)
Masonville Place, London (4)

QUEBEC
Rafters
Place Longueuil, Longueuil (3)
Place Versailles, Montreal (3)
Place Montreal Trust, Montreal (1)(3)
Place Vertu, St. Laurent
Les Promenades Des Grandes Fourches, Sherbrooke

SASKATCHEWAN
The Panhandler
Market Mail, Saskatoon

Notes:
(1) Franchise not yet in operation.
(2) Stores in relation to which LIV does not hold any interest in the premises.
(3) Lease held in the name of Rafters Boutique Inc., a wholly -owned subsidiary and nominee of LIV.
(4) Stores which are currently owned by LIV and which will continue to be owned and operated by LIV as franchisee. The Company has an option to acquire these stores within three years of the date of the purchase of the Franchise Operation. (See "The Pandhandler Agreement" on pages 6 and 7.)

Franchise Activities of the Franchise Operation

The franchise Operation will continue to be committed to the franchise method of store ownership. In this connection, the Franchise Operation will operate primarily as a franchisor and provide management consulting services to franchisees. The Franchise Operation will engage in franchise development through the sale of new franchises and will assist new franchisees in their store start-up operations and in the training of their staff. The Franchise Operation will continue to act as purchasing agent for all the stores in limited circumstances and this role will be expanded in the future. (See "Strategy for Expansion" on page 10.)

Franchise Management

The Franchise Operation will supervise operations of existiiig stores by developing and managing t co-operative advertising program, developing and introducing new merchandise concepts and assuming responsibility for determining suitable lines of merchandise. Ongoing training programs, seminars and consulting services are provided to franchisees by the Franchise Operation. Each franchisee is required to expend 4% of gross retail sales on advertising of which 1% is contributed to a national advertising fund administered by the Company for the preparation of advertising material.

In the event that a franchisee is in breach of its franchise agreement, the Franchise Operation has the right to terminate the franchise agreement and the option to acquire the inventory of the Defaulting Franchise at cost, and the fixtures and equipment located in the store at their depreciated book value. In the event of the exercise of such option, the Franchise Operation may continue to operate the Defaulting Franchise or sell it to a new franchisee. Pursuant to the Panhandler Agreement, the Company will also have the option of requiring LIV to assume responsibility for the Defaulting Franchise. (See "The Panhandler Agreement" on pages 6 and 7.)

Franchise Sales

Income for the Franchise Operation will be derived principally from royalty fees paid by existing stores. When new franchises for The Panhandler, Rafters and Abingtons stores are sold, the Franchise Operation will receive franchise fees on the granting of each franchise and royalty revenue from retail sales made by the new franchisees. Suitable independent owner-operators will be recruited by the Franchise Operation through market exposure of existing stores and through newspaper and trade publications. Such persons must demonstrate a minimum level of financial net worth which in the opinion of management is necessary for the successful operation of each franchise.

Start-Up Operations

The Franchise Operation will maintain a "new store start-up policy" focusing on location and design of each new store. The Franchise Operation generally will negotiate new store leases and will assume the head lease for all store locations. Of the 70 operating stores, there are only seven where the Franchise Operation does not act as the head tenant for the lease of the premises occupied by the store. Leases for store locations in Quebec may be held in the name of Rafters Boutique Inc., which corporation will be a wholly-owned subsidiary of the Franchise Operation and will act as nominee for the Franchise Operation. Reference is made to the list of Franchise Locations on pages 8 and 9. The Franchise Operation also controls store design and construction for each new store. The cost of stocking and renovating each new store is borne by the franchisee.

If the Franchise Operation learns of an appropriate opportunity for the establishment of a new store and an acceptable franchisee is not available, the Franchise Operation may establish and operate such store. There are presently no plans to establish stores to be operated by the Franchise Operation.

Training and On-going Assistance

New franchisees are involved in initial purchasing and store set-up as part of their training, as well as being provided with a two week training program by the staff of the Franchise Operation. On-going training and assistance provided to each franchisee includes an advertising manual and operating manual covering the day-to-day business of ordering, pricing, receiving, tagging and creating attractive displays. Regular national and regional seminars held by the Franchise Operation are a continuing educational program for franchisees enabling the franchisees to benefit from the Company's know-how and expertise. In addition, the Franchise Operation publishes a monthly newsletter for distribution to franchisees which provides a forum for continuous communication while at the same time enabling the Company to capitalize on the entrepreneurial ideas of its franchisees.

Purchasing

The merchandise mix for each of The Panhandler and Rafters stores is essentially the same across the country. The Franchise Operation acts as the purchasing agent for new stores in respect of all inventory and for established franchises in respect of select merchandise. The Franchise Operation maintains a recommended source list and facilitates bulk buying in the name of the Franchise Operation. Bulk buying results in volume discounts for the benefit of individual franchisees and the Company.

Strategy for Expansion

It is the intention of the Company to expand the Franchise Operation by increasing the number of franchise locations and, if necessary, by owning and operating retail outlets where appropriate opportunities arise. Currently, however, the Company does not intend to own and operate any retail outlets during the first year of operation. In particular, the Company will evaluate the prospects for "Abingtons" and, if the concept proves marketable, proceed to develop a network of franchises and, where appropriate, Company-owned stores. The Company will also investigate other means of expanding its network of retail outlets, including the possible acquisition of other stores or gift chains.

It is the intention of the Company to expand its operations in 1988 to include the importing of giftware and kitchenware and the wholesale distribution of such items to the franchisees and to other retail outlets. In this manner, the Company will act as purchasing agent for the franchises for a broader range of giftware and kitchenware items than in the past. Contacts have been initiated with possible foreign suppliers and management believes volume purchasing, direct importing and wholesaling will be key elements in the future profitability of the Company.

Preliminary investigations have been made regarding expansion into the United States. It is the intention of the Company to continue such investigations and to commence selling franchises in that market once management deems such expansion to be appropriate.

Trade Marks and Trade Names

Under the terms of the Panhandler Agreement the Company will acquire all right, title and interest of I-IV in the following trade marks and trade names:

THE PANHANDLER and design
PANHANDLER and design
RAFTERS and design
ABINGTONS and design
ABINGTON'S ANIMALS and design

The Franchise Operation regards the trade names and trade marks to be important to its identification and of significant value in the conduct of its business. Each of the franchisees becomes a licencee of the relevant trade marks and trade names pursuant to the provisions of the franchise agreement.

DISCUSSION OF OPERATING RESULTS OF THE FRANCHISE DIVISION OF LIV

	Seven Months Ended March 31		Year Ended August 31	
	1987	**1986**	**1986**	**1985**
	(unaudited)			
SALES				
Franchised stores	$9,845,753	$9,799,968	$14,509,559	$13,634,861
LIV Stores	2,290,650	1,984,768	3,292,867	1,797,985
	$12,136,403	$11,784,736	$17,802,426	$15,432,846
REVENUE				
Royalty Income	$546,103	$542,777	$815,709	$801,330
Sale of Franchises	39,000	49,700	104,700	133,600
Distribution Income	62,360	19,898	24,849	13,678
	647,463	612,375	945,258	948,608
EXPENSES	336,946	308,579	498,347	427,399
NET EARNINGS BEFORE INCOME TAXES	$310,517	$303,796	$446,911	$521.209

Note: The above information has been extracted from the consolidated financial information of LIV. LIV owned and operated a number of stores during the period shown. Sales from these stores have been included as LIV will pay royalties to the Company on such sales following the purchase of the Franchise Operation. However, income and expenses related to the operation of these stores have been excluded from the above selected financial information as LIV will operate such stores as franchisee of the Company.

The strength of a franchise company is royalty revenue. Royalty revenues for the franchise division of LIV have increased steadily each year since activities began in 1978, reaching $815,709 in 1986.

The purchase of the franchise division of LIV should provide the Company with a solid sales base from which royalties will be derived. Retail sales by franchisees and by LIV Stores were $17,802,426 in fiscal 1986 up from $15,432,846 in 1985. Total sales for the seven months ended March 31, 1987 were $12,136,403 as compared to $11,784,736 for the corresponding period last year.

Total sales are estimated to be $18,500,000 for the fiscal year ending August 31, 1987. As indicated in the following financial forecast, royalty-producing sales should exceed $20,000,000 for the year ending August 31, 1988.

Revenue from wholesale activities has increased and management believes volume purchasing, direct importing and wholesaling will be key elements in improving its future profitability.

FINANCIAL FORECAST

The preparation of the following "Forecast Statement of Earnings" and "Summary of Significan Forecast Assumptions" was completed by the Company, and approved by the board of directors of the Company, on May 29, 1987. The forecast will be reviewed and, if necessary, updated quarterly and any update will be distributed with the Company's financial statements during the forecast period.

The forecast has been prepared in accordance with the Accounting Guideline issued by the Canadian Institute of Chartered Accountants. The forecast is the Company's estimate of the most probable results of operations for the forecast period. Accordingly, the forecast reflects the Company's judgment as to the most likely future industry and economic conditions and the Company's most likely course of action under those conditions.

The reader is cautioned that some assumptions used in the preparation of the forecast, although considered reasonable by the Company at the time of preparation of the forecast, may prove to be incorrect. The reader is further cautioned that the actual results achieved during the period of the forecast will likely vary from the forecast results and the variations may be material.

Forecast Statement of Earning

	Year Ended August 31, 1988	Month of August 1987
SALES		
Franchised Stores (other than LIV Stores)	$ 16,825,287	$ 1,070,807
LIV Stores	3,480,614	242,451
	$20,305,901	$1,313,258
REVENUE		
Royalty Income - Franchised Stores		
(other than LIV Stores)	894,096	57,432
LIV Stores	208,837	14,535
Sale of franchises	135,000	4,150
Distribution Income	237,818	2,432
Interest	95,200	8,663
	$ 1,570,951	$ 87,212

EXPENSES		
Selling and administration	580,448	40,905
Depreciation	7,844	682
Amortization	61,125	5,093
	649,417	46,680
NET EARNINGS BEFORE INCOME TAXES	921,534	40,532
INCOME TAXES	494,678	22,584
NET EARNINGS	$ 426,856	$ 17,948
EARNINGS PER COMMON SHARE		
Basic	$ 0.35	
Fully diluted	$ 0.19	

Summary of Significant Forecast Assumptions

The following assumptions form an integral part of the Forecast Statement of Earnings and include major assumptions upon which the forecast is based.

1. **Accounting Policies:**
   The forecast has been prepared on the basis of accounting policies adopted by the Company as follows:

   Revenue Recognition:
   Revenue from franchise fees on the opening of new stores is recognized as income when the franchised store begins operations.

   Depreciation and Amortization:
   Annual depreciation and amortization rates adopted by the Company are:

Furniture and fixtures	20% on a declining balance basis
Alterations to leased premises	over the lease term on a straight-line basis
Excess of cost over book value of business acquired	over 20 years on a straight-line basis

2. **Issue of Shares:**
   The forecast gives effect to the receipt by the Company of net proceeds of $2,317,000 on July 31, 1987 as consideration for the issuance of 960,000 Units under this prospectus.

3. **Commencement of Operations:**
   The forecast gives effect to the purchase on July 31, 1987 of the Franchise Operation from LIV, a related company, for $1,262,500, comprising $40,000 for furniture, fixtures and alterations to the leased head office premises and the balance for intangible assets, satisfied by $850,000 paid in cash and $412,500 by virtue of a tax-free exchange by the issuance of 1,650,000 Special Shares.

4. **Sales Levels:**
   The forecast assumes that the number of stores in operation has not reached the saturation point and accordingly that the opening of new stores will not adversely affect sales in existing stores.

5. **Royalty Income:**
   The forecast assumes that royalty income will be at the rate of 6% of gross sales from all stores (including the LIV Stores which LIV will operate as a franchisee of the Company) other than from those stores of franchisees that have been granted a temporary royalty reduction. In such cases the forecast assumes that the temporary royalty reduction will continue during 1988.

6. Sale of Franchises:

The forecast assumes that franchise activity by the Company will be as follows:

	Franchises (other than LIV)	LIV Stores	Total Stores
Number of franchises			
May 29, 1987	58	12	70
Sale of new franchises	2	—	2
Purchase of Defaulting Franchises	(3)	3	—
Sale of a LIV Store (August, 1987)	1	(1)	—
Number of franchises			
September 1, 1987	58	14	72
Sale of new franchises	8	—	8
Purchase of Defaulting Franchises	(2)	2	—
Resale of Defaulting Franchises	2	(2)	—
Sale of LIV Stores	2	(2)	—
Number of franchises			
August 31, 1988	68	12	80

The forecast assumes that new franchises will be sold for $25,000 each, less commission costs, and that sales of stores now operated by LIV and resales of Defaulting Franchises will provide net proceeds of $5,000 per store and $2,500 per franchise.

7. Stores Purchased From Defaulting Franchisees:

The forecast assumes that the assets purchased from Defaulting Franchisees will initially be sold by the Company to LIV, a related company, at cost, that these franchises will subsequently be operated by LIV and that LIV will pay royalties until such time as the franchises are resold to independent franchisees.

8. Distribution Income:

The forecast assumes that the Company will expand its present sources of distribution income by the importation in 1988 of six containers of merchandise for sale to franchisees. The forecast assumes that this merchandise will provide a net margin, after expenses, of 23%, on sales of $680,000.

9. Interest Income:

The forecast assumes that the interest rate earned on cash balances will be 7%.

10. Income Taxes:

The forecast assumes that the combined federal and provincial income tax rates will be 51.4%.

11. Earnings Per Share:

Fully diluted earnings per share have been calculated (a) on the assumption that 497,140 Special Shares had been converted into Common Shares as at September 1, 1987, representing the number of Special Shares that could be converted based on the earnings forecasted for the year ended August 31, 1988, and (b) on the assumption that 960,000 Warrants were exercised as at September 1, 1987 and the proceeds received by the Company were invested to earn 7% before income taxes.

Comments on Financial Forecast

To the Board of Directors
Panhandler Group Inc.

We have reviewed the accompanying Forecast of Panhandler Group Inc. dated May 29, 1987, consisting of a Forecast Statement of Earnings for the year ending August 31, 1988 and for the month of August, 1987. Our review was performed in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants and accordingly consisted primarily of such procedures as enquiry, comparison and tests of compilation as we considered necessary in the circumstances.

Based on our review, in our opinion the Forecast is compiled on the basis of the assumptions and accounting policies disclosed in the accompanying notes and is presented in accordance with the applicable Accounting Guideline issued by the Canadian Institute of Chartered Accountants.

We do not express an opinion as to whether the results for the forecast period will approximate those forecasted because the Forecast is based upon assumptions made by management regarding future events which, by their nature, are not susceptible to substantiation.

Toronto, Ontario
May 29, 1987 CHARTERED ACCOUNTANTS

DETAILS OF THE OFFERING

The Offering

This offering consists of 960.000 units ("Units") at a purchase price of $2.75 per Unit. Each Unit consists of one Common Share and one Series A Share Purchase Warrant ("Warrant").

The Company has granted the Underwriter an option (the "Green Shoe Option") to increase by 96,000 Units (the "Additional Units") the number of Units offered hereunder at the same offering price per Unit. The Underwriter conditionally offers, if the Green Shoe Option is exercised, up to 96,000 Additional Units at a price per Unit of $2.75. None of the Additional Units will be sold until the offering of 960,000 Units has been fully subscribed for. The Additional Units are qualified for distribution under this prospectus.

Common Shares

The attributes of the Common Shares are described under "Description of Share Capital" off pages 16 and 17.

Warrants

The Warrants will be issued in registered form pursuant to and governed by an indenture (the "Warrant Indenture") dated as of •, 1987, between the Company and National Trust Company (the "Warrant Trustee"). This description of the Warrants is a summary, does not purport to be complete and is qualified by the detailed provisions of the Warrant Indenture.

Each Warrant entitles the registered holder thereof to purchase one Common Share at any time after issue and up to the close of business on November 15, 1988, at an exercise price of $3.00 per Common Share, subject to adjustment as described below, at the principal office of the Warrant Trustee in Toronto.

The Warrant Indenture contains anti-dilution provisions which provide for a proportionate adjustment in the exercise price of the Warrants as a consequence of:

(a) any reductions in the number of outstanding Common Shares due to consolidation thereof;

(b) any increase in the number of the outstanding Common Shares due to subdivision thereof; or

(c) any reclassification of the outstanding Common Shares.

No adjustment in the exercise price of the Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1%.

The Warrant Indenture also provides that the Company may not issue any Common Shares at a price per share less than $3.00, being the exercise price of the Warrant, except in accordance with the exercise of certain options contained in the Panhandler Agreement, the Green Shoe Option and the Compensation Option.

DILUTION PER COMMON SHARE

Of the offering price of $2.75 per Unit, the Company proposes to allocate $2.50 to the Common Share. The following table sets forth the dilution per Common Share as at May 29, 1987, after giving effect to the offering of 960,000 Units, representing a dilution factor of 18 % as indicated in the following table:

		Dilution Per Common Share (1)
Offering Price		$ 2.50
Net Tangible Book Value before the Issue	$ 0.10	
Increase of Net Tangible Book Value Attributable to this Issue (2) (3)	1.95	
Net Tangible Book Value after giving effect to this Issue		2.05
Dilution to Subscribers		$ 0.45
Percentage of Dilution in relation to the Offering Price		18.0%

(1) Before giving effect to the exercise of the Compensation Option or the Green Shoe Option by the Underwriter. or the exercise of the Warrants. Reference is made to “Plan of Distribution” on page 18 and “Details of the Offering” on page 15.

(2) Assuming expenses of issue of $125,000 and Underwriter’s fee of $198,000.

(3) Concurrent with the completion of this offering, the Company intends to acquire the Franchise Operation at a purchase price of $1,262,500 to be satisfied by the issuance of 1,650,000 Special Shares of the Company with a stated value of $0.25 each, and a payment of $850,000. The franchise rights, royalty rights, trademarks and goodwill to be acquired by the Company under the Panhandler Agreement are considered to be intangible assets. In the fiscal year ended August 31, 1986, LIV received $815,709 in royalty revenue and $104,700 from the sale of franchises generated by the ownership of these intangible assets. In the first full year of operation, it is forecast that the Company will receive $1,102,933 in royalty revenue and $135,000 from the sale of franchises as a result of the Company’s ownership of these intangible assets. (See “Financial Forecast” on pages 12 to 14.)

CAPITALIZATION

The following table and notes set forth the capitalization of the Company as at May 29, 1987 and the pro forma capitalization of the Company after giving effect to the offering and the completion of the purchase of the Franchise Operation described under "The Panhandler Agreement" on pages 6 and 7:

Security	Authorized	Amount Outstanding as at May 29, 1987	Amount Outstanding after giving effect to this issue and the purchase of the Franchise Operation (5)
Common Shares	Unlimited	$ 18,000	$ 2,418,000
(1)(2)(3)		(180,000 shares)	(1,140,000 shares)
First Preference Shares	Unlimited	Nil	Nil
Second Preference Shares	Unlimited	Nil	Nil
Special Shares	1,650,000	Nil	$ 412,500
(4)			(1,650,000 shares)
Total Capitalization		**$ 18,000**	**$ 2,830,500**

(1) Before deducting Underwriter's fee and expenses of issue.

(2) The Green Shoe Option, if fully exercised, would result in the issuance of an additional 96,000 Common Shares at $2.50 per share for aggregate proceeds to the Company of $240,000 and an additional 96,000 Warrants at $0.25 per share for aggregate proceeds to the Company of $24,000, before payment of the Underwriter's fee in respect of the issuance of the Additional Units. The Company has granted the Compensation Option, as part of the compensation to be paid to the Underwriter, exercisable at any time prior to April 10, 1989, to acquire up to 10% of the number of any shares issued in connection with an equity financing for which the Underwriter has acted as agent or as underwriter.

(3) An undetermined number of Common Shares may be issued by the Company at $2.50 per share as payment for the purchase price on the acquisition of the LIV Stores pursuant to the Panhandler Agreement.

(4) After giving effect to articles of amendment dated o, 1987. (See "Description of Share Capital" on this page and page 17.)

(5) As part of this issue, 960,000 Warrants valued at $0.25 will be issued resulting in contributed surplus of $240,000. If the Green Shoe Option is fully exercised, an additional 96,000 Warrants valued at $0.25 would be issued resulting in a further addition to contributed surplus of $24,000. A deficit of $323,000 will exist after giving effect to this issue, as a result of the payment of the Underwriter's fee and the expenses of issue.

The Company currently has no long-term debt and no secured debt.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of First Preference Shares issuable in series (the "First Preference Shares"), an unlimited number of Second Preference Shares issuable in series (the "Second Preference Shares"), 1,650,000 Special Shares (the "Special Shares") and an unlimited number of Common Shares, of which 180,000 Common Shares are issued and outstanding. The Company currently has no intention to issue any First Preference Shares or Second Preference Shares.

The following is a summary of the principal attributes and characteristics attaching to First Preference Shares, Second Preference Shares, Special Shares and Common Shares.

First Preference Shares

The First Preference Shares are issuable from time to time in one or more series with the attributes of each series to be fixed by the board of directors at the time the series is authorized for issuance. The First Preference Shares of each series will rank on a parity with the First Preference Shares of every other series with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding up, whether voluntary or involuntary, and have priority over the Common Shares and any other class of shares ranking, junior to the First Preference Shares to the extent of the amount paid up thereon and any unpaid cumulative dividends.

No series of First Preference Shares may be convertible into Common Shares. Holders of any series of First Preference Shares will not be entitled to vote at any meetings of shareholders, except as required by law. Shares of each series of First Preference Share will carry cumulative dividends. Every series of First Preference Shares shall be redeemable by the Company. The board of directors may provide that any series of First Preference Shares may be purchased for cancellation by the Company and/or may be redeemable by the holder. No series of First Preference Shares will carry any pre-emptive rights.

Second Preference Shares

The Second Preference Shares are issuable from time to time in one or more series with the attributes of each series to be fixed by the board of directors at the time the series is authorized for issuance. The Second Preference Shares of each series will rank after any series of First Preference Share but on a parity with the Second Preference Shares of every other .series with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding up, whether voluntary or involuntary and will have priority over the Common Shares and any other class of shares ranking junior to the Second Preference Shares to the extent of the amount paid up thereon and any unpaid cumulative dividends.

Each share of any series of Second Preference Shares shall be entitled to one vote at all meetings of shareholders of the Company. Shares of each series of Second Preference Share will carry cumulative dividends and may be made convertible into Common Shares. Shares of any series of Second Preference Share shall be redeemable at the option of the Company, may be redeemable at the option of the holder on payment by the Company of the amount paid up thereon and all unpaid cumulative dividends and may be purchased by the Company for cancellation. No series of Second Preference Shares will carry any preemptive rights.

Special Shares

Holders of Special Shares shall be entitled to one vote per Special Share held at all meetings of shareholders of the Company. Each Special Share will carry fixed non-cumulative dividends equal to seven per cent (7 %) of the amount paid up thereon as and when declared by the board of directors. No dividend will be declared and paid on the Common Shares unless a dividend is declared and paid on the Special Shares.

The Special Shares are redeemable at the option of the Company upon payment of the amount paid up thereon plus any unpaid dividends. In the event of a liquidation, dissolution or winding up, whether voluntary or involuntary, the Special Shares rank after the First Preference Shares of any series and the Second Preference Shares of any series, but prior to the Common Shares and shall be entitled to receive the lesser of:

i) the amount paid up on the Special Shares; and

ii) the amount by which the assets of the Company following the distribution to holders of the First Preference Shares and Second Preference Shares exceeds the balance of the stated capital amount with respect to the Common Shares.

Each Special Share is convertible into one Common Share of the Company after the end of each fiscal year of the Company provided that the maximum number of Special Shares which may be converted during such fiscal year shall he calculated by dividing by .20 one-half of the amount by which the net after-tax profit of the Company for the immediately preceding fiscal year exceeds an amount equal to $0.20 times the number of Common Shares outstanding at the end of the immediately preceding fiscal year. For example, assuming that there are 1,140,000 Common Shares outstanding, no Special Shares would be convertible unless the net after-tax profit in any fiscal year exceeded $228,000. All of the Special Shares could be converted to Common Shares in a single year if after-tax profit reached $888,000 in the preceding fiscal year. The threshold profit levels will vary depending on the number of Common Shares outstanding.

The right to convert the Special Shares shall be allocated pro rata among the holders in proportion to the number of Special Shares held. If a conversion right arising in any fiscal year is not exercised during that year, that right expires. All Special Shares called for redemption may be converted on a share for share basis into Common Shares without limitation prior to the redemption date.

Common Shares

Holders of Common Shares are entitled to one vote per Common Share at all meetings of shareholders of the Company and, subject to the rights of the holders of any shares ranking in priority to or on a parity with the Common Shares, to receive the remaining property and assets of the Company in the event of Iiquidation, dissolution or winding up of the Company. Holders of the Common Shares are entitled to receive dividends as and when declared by the directors but no dividends may be declared and paid on the Common Shares unless the 7% non-cumulative dividend is declared and paid on the Special Shares.

DIVIDEND POLICY

The Company has not declared or paid any dividends on its Common Shares. The Special Shares are entitled to a fixed non-cumulative dividend of 7% of the amount paid up on such shares. No dividend may be paid on the Common Shares unless the 7% dividend has been paid on the Special Shares. (See “Description of Share Capital” on pages 16 and 17.)

The declaration and payment of dividends will be decided by the board of directors from time to time, based upon and subject to the Company’s earnings, financial requirements and other conditions prevailing at the time. (See “Strategy for Expansion” on page 10.)

PLAN OF DISTRIBUTION

The Company entered into an engagement agreement (the "Engagement Agreement") dated April 10, !987 with Oster Inc. whereby the Company agreed to engage Oster Inc. as underwriter for the purpose of this offering subject to the fulfillment of certain conditions.

Under an underwriting agreement dated 0, 1987 (the "Underwriting Agreement") between the Company and Oster Inc., as underwriter (the "Underwriter"), the Company has agreed to sell and the Underwriter has agreed to purchase 960,000 Units (the "Underwritten Units") subject to the terms and conditions of the Underwriting Agreement on July 31, 198'7, or on such other date to be agreed upon, but not later than 0, 1987, at a price of $2.75 per Unit, payable to the Company against delivery of certificates representing the Common Shares and the Warrants.

Under the Underwriting Agreement, the Company has granted the Green Shoe Option to the Underwriter whereunder it is entitled to exercise and acquire all or any part of the Additional Units provided all the Underwritten Units have been sold. The Green Shoe Option will be non-transferable. The Green Shoe Option will be exercisable at a price of $2.75 per Unit in whole or in part on the date of closing of this offering. If the Green Shoe Option is exercised in its entirety, the Company will receive additional net proceeds of $244,200 after payment of the Underwriter's fee of $19,800 in respect of the issuance of these Additional Units.

The obligations of the Underwriter under the Underwriting Agreement may be terminated at its sole discretion on the basis of its assessment of the state of the financial markets or upon the occurrence of certain other stated events. The Underwriter is, however, obliged to take up and pay for all of the Underwritten Units offered hereby, if any such Underwritten Units are purchased under the Underwriting Agreement.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Units at a higher level than that which might otherwise prevail in the open market. Such transactions may be commenced, interrupted or discontinued at anytime.

The Company has agreed to pay the Underwriter a fee of $198,000 for services rendered in connection with this issue. The Company has also agreed to pay the Underwriter a fee equal to 7.5 % of the proceeds received by the Company on the issuance of the Additional Units which, if the Green Shoe Option is fully exercised, would result in a fee of $19,800. The Underwriter has also been granted the Compensation Option, which option is exercisable for a period of two years from the date of the Engagement Agreement, to purchase up to 10% of the Common Shares issued under this prospectus or issued in connection with any equity financing by the Company for which the Underwriter acts as agent or underwriter for the Company. The Common Shares subject to the Compensation Option are qualified for distribution under this prospectus.

USE OF PROCEEDS

The net proceeds from this offering are estimated to be $2,317,000 after deducting the Underwriter's fee of $198,000 and estimated expenses of the issue of $12,',000. $850,000 of the net proceeds will be used to make the cash payment to LIV required on the purchase of the Franchise Operation. (See "The Panhandler Agreement" on pages 6 and 7.) The balance of the net proceeds will be used to increase working capital, to expand franchise activities and to expand the operations of the Company into the import and wholesale distribution business as outlined under the "Strategy for Expansion" on page 10.

If the Green Shoe Option is fully exercised the Company will receive net proceeds of $244,200 after payment of the Underwriter's fee of $19,800 in respect of the issuance of the Additional Units.

DIRECTORS AND OFFICERS

Set forth below are the names, principal occupations and municipalities of residence of the directors and officers of the Company and their positions with the Company:

Name and Municipality	Office	Principal Occupation
Philip Gordon Barnes Toronto, Ontario	Chief Financial Officer and Director	General Manager, Graphic Web, a division of Quebecor Inc., a printing company.
Robert James Harris Oakville, Ontario	Director	Consultant President, Draven Enterprises Limited, a national retail chain
Edward Kenneth Loyst (1) Willowdale, Ontario	Chairman, President, Secretary Chief Executive Officer and Director	President, The LIV Group Incorporated, a franchisor
Donald M. McPhail (1) Thornhill, Ontario	Director	Consultant. President, Claremore Systems Investments Limited, a consulting company.
Helen Nicholls Rexdale, Ontario	Assistant Secretary-Treasurer	Secretary-Treasurer, The LIV Group Incorporated, a franchisor
Laurence Polley (1) Gormley, Ontario	Director	President, Data Terminal Mart (1981) Limited, distributor of Telecommunications equipment.

(1) Member of the audit committee

Philip Gordon Barnes is a senior management consultant who presently holds the position of General Manager of Graphic Web, a printing company and a division of Quebecor Inc. Mr. Barnes has held management positions in printing companies, primarily in their operations departments, since 1973 when he joined Maclean Hunter Ltd. as operations manager. In 1981, Mr. Barnes became vice-president, manufacturing for Thorn Press. He served as vice-president of Haughton Graphics, a division of Baton Broadcasting from 1983 to 1985. In the past, Mr. Barnes was involved in the franchise industry as a franchisee of two Living Lighting stores. He is also the sole owner and operator of the Ontario franchise for the Gordon Bernard Co., a fund-raising organization for service clubs.

Robert James Harris is a professional consultant with approximately twenty years experience in the franchise field as consultant, franchisor and franchisee and is currently president of Draven Enterprises Limited. Mr. Harris received his formal education at the University of Toronto (Civil Engineering) and at Syracuse University in New York. He was the senior partner of Robert Harris & Associates, an international franchise consulting company. In January of 1986, Mr. Harris merged his company with Clarkson Gordon/Woods Gordon. Mr. Harris became a senior partner in Woods Gordon and the practice director of its Franchise Services Group until 1987 when he retired from the firm. He has written and lectured on numerous franchise topics and participated, on behalf of the Canadian Government, in the first International Franchise Trade Mission to Europe.

Edward K. Loyst founded the Company of which he is President and Chief Executive Officer. In 1968, Mr. Loyst founded the Living Lighting chain of stores which was sold in 1981. He is also the founder of The Panhandler, Rafters and Abington's Animals chain of gift stores. Mr. Loyst is president of LIV Canada Limited and The LIV Group Incorporated, which will continue to operate twelve stores as a franchisee of the Company. He is President of Aragorn Holdings Limited, a personal holding company which owns a controlling interest in LIV Canada Limited. Mr. Loyst is a past President of The Association of Canadian Franchisors. The LIV Group Incorporated was the first recipient of that Association's "Hall of Fame Award" for its contribution to the franchise industry. Mr. Loyst is Chairman of the Franchise Steering Committee of the Retail Council of Canada and a member of the Council's Board of Directors. Mr. Loyst is a frequent speaker at franchise seminars across Canada. He has lectured at the University of Toronto and York University and he has represented the Canadian gift industry on a Canadian Government speaking tour to several Asian countries.

Donald M. McPhail is currently self-employed as a Consultant and since 1985 he has been president of Claremore Systems Investments Limited. Prior to that he served for approximately twenty years as the president of Comtech Group International Limited, a company in the computer service business. He serves on the boards of York Centre Corporation and Canlands Energy Corporation. Mr. McPhail has a Bachelors Degree from the University of Alberta and a Masters Degree from the University of Toronto.

Laurence Polley has, since 1981, been the president of' Data Terminal Mart (1981) Limited, a supplier of data communications and computer systems in Canada and the United States. In 1987, he became president and chief operating officer of Microphonics Technology International, a holding company for domestic and international subsidiaries involved in the high technology industry, of which Data Terminal Mart (1981) Limited is subsidiary. Mr. Polley graduated from Queen's University in 1968 with a Bachelor of Science in Electrical Engineering and received his Masters of Business Administration from York University in 1976. In 1968, Mr. Polley joined H.G. Acres and Company Ltd., consulting engineers, as an electrical design engineer. From 1968 to 1972, he served as regional sales manager for Ontario and part of the United States for Gen-Tec Inc., manufacturers of sophisticated electronic equipment. In 1972, Mr. Polley joined Electronetic Systems Ltd., sales agent and distributor of microwave components and telecommunications and data systems, holding positions as branch sales manager and director of marketing with the company.

REMUNERATION OF DIRECTORS AND OFFICERS

To date the Company has not paid any remuneration to its directors or officers. Effective June 1, 1987, the Company will remunerate directors who are not otherwise officers of the Company at the rate of $125 per meeting attended. Effective upon the closing of this offering, the Company has agreed to pay to the President of the Company an aggregate annual remuneration of $75,000.

RISK FACTORS

In addition to certain factors relating to the Company's business described under "Business of the Company", the following should be considered by potential investors:

1. The Company's continued growth will depend, in part, on its ability to sell additional franchises and to generate additional royalties from new stores. In this regard, there is no assurance that such new stores will attain operating results currently achieved by the existing stores or commensurate with the results contained the Financial Forecast.

2. There is a potential conflict of interest between LIV and the Company insofar as LIV will continue to own a number of stores while holding a majority of the voting shares of the Company.

3. Edward K. Loyst is an officer and director of the Company and is also an officer and director and indirectly the controlling shareholder of LIV.

4. The market for giftware, kitchenware and gourmet specialties has expanded significantly since the formation of the franchise division of LIV in 1974, and the Company, upon purchasing the Franchise Operation, will be in competition with other enterprises engaged in similar retail activities.

5. Abingtons is in the developmental stage and there is no guarantee that the concept will prove sufficiently successful to justify the sale of additional Abingtons franchises or that royalty revenues will he significant.

6. The Company is relying on the ability of LIV to operate any Defaulting Franchise and to make ongoing royalty payments in respect of the LIV Stores.

TAX ASPECTS

In the opinion of Burkman, Twiss & McNevin, counsel to the the Company, the following summary is a fair and adequate explanation of the relevant Canadian federal income tax consequences under the Income Tax Act (Canada) (the "Act") and any proposal made as of May 29, 1987 to amend the provisions of the Act and the regulations thereunder. The provisions of the income tax legislation of certain provinces may differ from those contained in the Act and the following summary does not deal with the provisions of such provincial legislation.

This summary is of a general nature only, based on the assumption that the investor is a person who is resident in Canada and who holds and deals with his Common Shares and Warrants as capital property. Generally, the Common Shares and Warrants will constitute capital property to an investor unless the investor is a trader or dealer of securities or is engaged in an adventure in the nature of a trade with respect to the Common Shares or Warrants.

Except where otherwise indicated, the summary does not take into account or anticipate changes in the law, whether by judicial or legislative action or any change in administrative policies and practices. No representation is hereby made with respect to the tax consequences to any particular shareholder. Each investor should consult his or her own personal tax and/or professional advisors with respect to the matters contained herein and their particular circumstances.

Cost of Common Shares and Warrants

In order to determine certain of the income tax consequences to the Company and to the purchasers of the Units, it is necessary to allocate the purchase price of each Unit. Such allocation must be made on a reasonable basis and must be the same for the Company and for the purchasers of the Units. The Company, for its purposes, will allocate the $2.75 purchase price for each Unit as follows: $2.50 to the Common Share and $0.25 to the Warrant. The Company believes that such allocation is reasonable. However, such allocation will not be binding on Revenue Canada, Taxation and Revenue Canada, Taxation could challenge such allocation. If successful in such challenge, Revenue Canada, Taxation could cause the Company and the purchasers to use a different allocation.

Warrants

Based upon the foregoing allocation, the adjusted cost base to a warrantholder of a Warrant will be $0.25. No gain or loss will be realized by a holder of a Warrant upon the exercise of such Warrant. When a Warrant is exercised, the warrantholder's cost of the Common Share acquired thereby will be the aggregate of the adjusted cost base of the Warrant and the exercise price paid for the Common Share.

Upon the expiry of an unexercised Warrant, the holder thereof will realize a capital loss equal to the adjusted cost base of the Warrant.

If a holder of a Warrant disposes of a Warrant other than on an expiry of the Warrant, the holder will realize a capital gain (or a capital loss) upon such disposition to the extent that the proceeds of disposition of the Warrant exceed (or are exceeded by) the aggregate of the adjusted cost base of the Warrant and any costs of disposition.

Sale of Common Shares

On a disposition of Common Shares, a shareholder will recognize a capital gain (or a capital loss) to the extent that the proceeds (net of selling expenses) exceed (or are exceeded by) the adjusted cost base of the Common Shares to the vendor.

Capital Gains and Losses

One-half of any capital gain realized by a shareholder and/or warrantholder by virtue of the sale or other disposition of a Common Share or Warrant described herein will be a taxable capital gain and included as ordinary income of the shareholder or warrantholder.

The Act provides a cumulative tax exemption for capital gains realized by individuals other than trusts up to a lifetime limit of $500,000 in capital gains (or $250,000 of taxable capital gains). The exemption applies to all net capital gains realized on all capital property.

The exemption is being phased in over a period of time. The exemption has a cumulative limit of $50,000 of taxable capital gains in 1987, rising to $100,000 in 1988, $150,000 in 1989 and $250,000 in 1990 and subsequent taxation years.

Under the Act, one-half of any capital loss, being an allowable capital loss, may be deducted by the investor incurring such loss from the amount of any taxable capital gains of the investor for the year of disposition and the balance of such allowable capital loss may be carried back three years and carried forward indefinitely for deduction against taxable capital gains of such years.

One-half of net capital gains exempt under the $500,000 lifetime capital exemption and the full amount of net capital gains other than such exempt gains will be included in adjusted taxable income for the purposes of computing an investor's minimum tax liability at the personal level.

ELIGIBILITY FOR INVESTMENT

In the opinion of Burkman, Twiss & McNevin, counsel to the Company, the Common Shares and Warrants offered hereby, when listed on a prescribed stock exchange, will be qualified investments without limitations under the Act for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans.

In the opinion of such counsel, the Common Shares and Warrants will, on the date of issue, be small business properties for the purposes of the Act which may be purchased by small business investment limited partnerships, small business investment trusts, small business investment corporations and trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered pension plans, subject to certain limitations applicable generally to such purchasers so that registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered pension plans who purchase the Common Shares and Warrants directly or indirectly through small business investment limited partnerships, small business investment trusts and small business investment corporations will be entitled to increase, subject to certain limitations applicable to such purchasers, their investment in foreign property.

PRIOR SALE OF SHARES

The only issued and outstanding shares of the Company as at May 29, 1987 are 30,000 Common Shares issued for $0.10 per Common Share to Edward K. Loyst and 150,000 Common Shares issued for $0.10 per Common Share to LIV, The Company has agreed to issue 1,650,000 Special Shares to LIV as partial consideration for the purchase of the Franchise Operation. (See "The Panhandler Agreement" on pages 6 and 7.)

PRINCIPAL SHAREHOLDERS

The following table shows the number of voting securities owned as at the date hereof, of record or beneficially, directly or indirectly, by each person or company who owned of record, or to the knowledge of the Company owned beneficially, directly or indirectly, more than 10% of the voting securities of the Company:

Name and Address	Type of Ownership	Number of Common Shares Owned	Percentage of Common Shares Outstanding
The LIV Group Incorporated Toronto, Ontario	Direct	150,000	83.3%
Edward K. Loyst Toronto, Ontario.	Direct	30,000	16.7%

Edward K. Loyst, a director and officer of the Company, is an officer and director of LIV and, indirectly, the controlling shareholder of LIV. Following the purchase of the Franchise Operation, LIV and Edward K. Loyst will collectively own directly 15.8% of the Common Shares of the Company after giving effect to this issue and without taking into consideration the exercise of the Compensation Option or the Green Shoe Option by the Underwriter, or the exercise of the Warrants. Additional Common Shares of the Company will be issued to LIV if the Company exercises its option under the Panhandler Agreement to acquire the various retail store operations retained by LIV. On the purchase of the Franchise Operation, LIV will be issued 1,650,000 Special Shares which are convertible into 1,650,000 Common Shares subject to certain restrictions related to the profitability of the Company. (See "Description of Share Capital" on pages 16 and 17.)

After giving effect to this issue and the purchase of the Franchise Operation, directors and officers of the Company as a group will beneficially own, directly or indirectly, 15.8 % of the outstanding Common Shares and 100 % of the Special Shares, together constituting 65.6% of the voting shares of the Company. If the Green Shoe Option, Compensation Option and all Warrants are exercised, these persons would hold 7.5 % of the Common Shares and 100% of the Special Shares, together constituting 45.3% of the voting shares of the Company. (See "Promoters" on page 24 and "Interest of Management in Material Contracts" on page 23.)

ESCROW AGREEMENT

Pursuant to an escrow agreement dated June •, 1987 (the "Escrow Agreement") among LIV, Edward K. Loyst, the Company and the National Trust Company (the "Trustee"), LIV and Edward K. Loyst have agreed to deposit with the Trustee 180,000 Common Shares and 1,650,000 Special Shares, owned by them (the "Escrowed Shares") which Common Shares will represent, after giving effect to this offer, 15.8% of all issued and outstanding Common Shares and which Special Shares will represent 100% of the Special Shares. The Special Shares are convertible to Common Shares on a share for share basis subject to certain restrictions more fully described under "Description of Share Capital" on pages 16 and 17. If any of the Special Shares are converted to Common Shares, the Common Shares into which such Special Shares have been converted will remain subject to the Escrow Agreement.

The Escrow Agreement provides that a number of Escrowed Shares equal to 10% of the total Escrowed Shares will be released on •, 1988 and that on • in each of the years 1989, 1990 and 1991, a number of shares equal to 20% of the total Escrowed Shares will be released and on •, 1992 the remaining 30% of the Escrowed Shares will be released.

The Escrowed Shares may be mortgaged, pledged, charged or hypothecated to any Canadian chartered bank or trust company and such body may, in realizing its security interest therein, sell such shares subject, however, to the Escrow Agreement. If any arm's length offer or makes a bona fide takeover bid to all or substantially all of the holders of the Company's Common Shares (or any other Escrowed Shares) for more than 50% of the total of such shares outstanding, the Trustee shall, if so directed by the party or parties entitled. tender any or all of the Common Shares (or any other Escrowed Shares) owned by such party or parties to such takeover bid and such tendered shares may be taken up and paid for subject to the Escrow Agreement.

INTEREST OF MANAGEMENT IN MATERIAL CONTRACTS

Investors, in assessing the risks and rewards of this investment, should appreciate that there is a potential conflict of interest in that Edward K. Loyst is the President and a director of LIV and the sole shareholder of Aragorn Holdings Limited ("Aragorn"). Aragorn holds 52% of the shares of LIV Canada Limited which company owns 100% of the shares of LIV. Mr. Loyst is at the same time the President and a director of the Company. Philip Gordon Barnes, a director of the Company, holds 3.84% of the shares of LIV Canada Limited.

As the sole shareholder of Aragorn, Mr. Loyst also has an indirect interest in the Panhandler Agreement. Under the Panhandler Agreement, the Company will be acquiring the Franchise Operation from LIV at a purchase price of $1,262,500 to be satisfied by a cash payment of $850,000 and the issuance of 1,650,000 Special Shares with a stated value of $0.25 per share. Under the Panhandler Agreement, the Company may, under certain conditions require LIV to purchase the assets of a Defaulting Franchise. Additional Common Shares of the Company may be issued to LIV if the Company exercises its option to purchase the LIV Stores and any Defaulting Franchise operated by LIV at the time such option is exercised. (See "The Panhandler Agreement" on pages 6 and 7.)

MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business of the Company, the only material contracts entered into by the Company as at the date hereof are the following:

1. Engagement Agreement between the Company and Osler Inc. dated April 10, 1987 and referred to on page 18 under "Plan of Distribution";

2. The Panhandler Agreement between the Company and LIV dated 9, 1987 and referred to on pages 6 and 7 under "The Company";

3. Underwriting Agreement between the Company and Osler Inc. dated •, 1987 and referred to on page 18 under "Plan of Distribution";

4. Warrant Indenture between the Company and the National Trust Company dated 0, 1987 and referred to on page 15 under "Warrants"; and

5. Escrow Agreement among LIV, Edward K. Loyst, the Company and National Trust Company dated •, 1987 and referred to on page 23 under "Escrow Agreement".

Copies of the foregoing may be examined at the head office of the Company during the ordinary business hours throughout the period of distribution of the Units offered hereby and for a period of 30 days thereafter.

OTHER MATERIAL FACTS

Market for Common Shares and Warrants

The price at which the Common Shares and Warrants of the Company will trade is subject to a number of market factors. There can be no guarantee as to the price at which such securities will trade at any particular time. There is presently no market for the Common Shares and Warrants.

Resale of Common Shares on Exercise of Warrants

The resale of Common Shares issued upon the exercise of Warrants is subject to restriction in Ontario and Alberta. The Ontario Securities Commission has issued a blanket ruling and an application will be made by the Company to the Alberta Securities Commission respecting the resale of Common Shares issued upon the exercise of a Warrant in each such province within 12 months of 0, 1987. The effect of the ruling and order in respect of the Common Shares of the Company issued upon the exercise of a Warrant or Warrants (assuming the Common Shares are listed and posted for trading on the Toronto Stock Exchange and assuming no effort is made to prepare the market or create a demand for such Common Shares and no extraordinary consideration is paid in respect of the sale) will be that such Common Shares may be resold without further formality in Ontario and Alberta. However, in Ontario certain requirements must be complied with where a shareholder and persons related to that shareholder hold in excess of five per cent of the outstanding Common Shares of the Company. For the purpose of determining the aggregate number of Common Shares held by such shareholder, Common Shares which may be received upon the exercise of Warrants and options held by such shareholder are included.

Legal Proceedings

The Company is not a party to any pending legal proceedings of a material nature and no legal proceedings are known to be contemplated.

REGISTRAR, TRANSFER AGENT AND WARRANT TRUSTEE

The Warrant Trustee and the registrar and transfer agent for the Company is the National Trust Company at its principal offices in Toronto, Ontario.

AUDITORS

The auditors of the Company are Richter, Usher & Vineberg, Chartered Accountants, Toronto, Ontario.

PROMOTERS

Edward K. Loyst and LIV took the initiative in organizing the business and capital of the Company and are accordingly promoters of the Company within the meaning of the securities legislation of certain provinces of Canada. As part of such organization, Edward K. Loyst acquired 30,000 Common Shares for an aggregate consideration of $3,000 and LIV acquired 150,000 Common Shares for an aggregate consideration of $15,000. (See "Principal Shareholders" on page 22 and "Interest of Management in Material Contracts" on page 23.)

The Company will be acquiring the Franchise Operation from LIV pursuant to the Panhandler Agreement for a cash payment of $850,000 and the issuance of 1,650,000 Special Shares with a stated value of $0.25 per share. The Special Shares are convertible to Common Shares upon the Company meeting certain performance criteria. (See "Description of Share Capital" on pages 16 and 17.)

The transfer is being effected pursuant to subsection 85(1) of the Act such that the tax cost of the Franchise Operation is $850,000 and the notional purchase price is $1,262,500. The purchase price and the method of payment was established by the Company, LIV and the Underwriter as discussed under "The Panhandler Agreement" on pages 6 and 7.

LEGAL OPINIONS

Certain legal matters in connection with this offering will be passed upon for the Company by Burkman, Twiss & McNevin and on behalf of the Underwriter by Smith, Lyons, Torrance, Stevenson & Mayer.

AUDITORS REPORT

To the Board of Directors
Panhandler Group Inc.

We have examined the balance sheet of Panhandler Group Inc. as at May 29, 1987. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the balance sheet presents fairly the financial position of the company as at May 29, 1987 in accordance with generally accepted accounting principles.

Toronto, Ontario
•, 1987 CHARTERED ACCOUNTANTS

COMPILATION REPORT

To the Board of Directors
Panhandler Group Inc.

We have reviewed, as to compilation only. the accompanying pro-forma balance sheet of Panhandler Group Inc. as at May 29, 1987 which has been prepared for inclusion in the prospectus relating to the sale and issue of Units consisting of' Common Shares and Warrants of Panhandler Group Inc. In our opinion, the pro-forma balance sheet has been properly compiled to give to effect to the proposed transactions and the assumptions described in note 2 thereto.

Toronto, Ontario
•, 1987 CHARTERED ACCOUNTANTS

PANHANDLER GROUP INC.
BALANCE SHEETS

	Pro-forma May 29,1987 (Note 2) (Unaudited)	May 29, 1987
ASSETS		
CASH	$ 1,485,000	$ 18,000
FURNITURE AND FIXTURES AND ALTERATIONS TO LEASED PREMISES, at cost	$40,000	
EXCESS OF COST OVER BOOK VALUE OF BUSINESS ACQUIRED	1,222,500	
	$ 2,747,500	$ 18,000
CONTINGENT LIABILITY (Note 5)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 3)	$ 2,830,500	$ 18,000
CONTRIBUTED SURPLUS	240,000	
DEFICIT (Note 2)	(323,000)	
	$ 2,747,500	$ 18,000

Approved on Behalf of the Board

(signed) - Director - Edward K. Loyst
(signed) - Director - Philip G. Barnes

See accompanying notes to balance sheet and pro-forma balance sheet.

PANHANDLER GROUP INC.

NOTES TO BALANCE SHEET AND PRO-FORMA BALANCE SHEET
MAY 29,1987

1. **The Company:**
   The Company was incorporated on April 14, 1987.

2. **Pro-forma Balance Sheet:**
   The pro-forma balance sheet gives effect to the following transactions as if they had occurred On May 29. 1987:

   (i) The creation of the Special Shares.

   (ii) The issuance of 960,000 Units at a price of $2.75 per Unit and the payment of related underwriter's fee and estimated expenses of the issue of $323,000. Each Unit consists of one Common Share and one Series A Share Purchase Warrant which entitles the holder to purchase one Common Share at a price of $3.00 at any time up to and including November 15, 1988.

   (iii) The purchase of the franchising assets and business of The LIV Group Incorporated, a related company, for $1,262,500, comprising $40,000 for furniture, fixtures and alterations to the leased head office premises and the balance for intangible assets, satisfied by $850,000 paid in cash and $412.500 by virtue of a tax free exchange by the issuance of 1,650,000 Special Shares.

   The pro-forma deficit is comprised of the underwriter's fee and estimated expenses of the issue of Units referred to in Note 2(ii).

3. **Capital Stock:**
   Authorized - unlimited as to number
   First Preference Shares, non-voting, redeemable, cumulative, issuable in series
   Second Preference Shares, voting, redeemable, cumulative, retractable, issuable in series

   The board of directors can determine the dividend rate and redemption price of each series of the Preference Shares and any convertibility rights of the Second Preference Shares at the time of the issue of such shares.

Common Shares

Issued	Pro-forma May 29,1987		May 29, 1987	
	Shares	**Stated Value**	**Shares**	**Stated Value**
Special Shares	1,650,000	$ 412,500	-	$ -
Common Shares	1,140,000	2,418,000	180,000	18,000
		$ 2,830,500		$ 18,000

The Company issued 1 Common Share on April 14, 1987 for $0.10 and 179,999 Common Shares on May 27, 1987 for $17,999.90.

Subsequent Event:

On •, 1987, 1,650,000 Special Shares were authorized which are voting, redeemable and entitled to a 7% non-cumulative dividend. The Special Shares are convertible into Common Shares on a share for share basis if the Special Shares are called for redemption or at any time in a year in such number that results when an amount equal to one half the net earnings of the company in the preceding year which exceed the amount required to provide net earnings of $0.20 per Common Share is divided by 0.20.

4. **Related Party** Transactions:

The purchase price of the assets referred to in Note 2(iii) which assets were acquired from The LIV Group Incorporated, a related company, was established by the Company, The LIV Group Incorporated and the Underwriter referred to in Note 2(ii).

The purchase agreement also provides that, for a period of three years from the date of the purchase, the Company has the option (a) of requiring The LIV Group Incorporated to repurchase at cost any stores purchased by the Company from defaulting franchisees and (b) to purchase all, but not less than all, the stores operated by The LIV Group Incorporated.

5. Contingent Liability:

After giving effect to the acquisition referred to in Note 2(iii), the Company will be responsible under head leases for stores which are sublet to franchisees. The aggregate minimum rentals, exclusive of additional amounts based on percentage of sales, property taxes and other occupancy charges, payable in the next five years are as follows:

1988	$ 2,002,974
1989	2,031,509
1990	1,961,075
1991	1,790,415
1992	1,660,188

In all cases, this rent is initially the responsibility of the franchisees Occupying the particular leased premises.

AUDITORS' REPORT

To the Board of Directors
The LIV Group Incorporated

We have examined the statement of earnings of the Franchise Division of The LIV Group Incorporated for the years ended August 31, 1986 and August 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

A description of the Franchise Division and the basis of computing its earnings are set forth in notes I and 2 to the statement of earnings.

In our opinion the statement of earnings presents fairly the results of operations of the Franchise Division of The LIV Group Incorporated for the years ended August 31, 1986 and August 31, 1985 in accordance with the basis set forth in the notes to the statement of earnings applied on a consistent basis.

Toronto, Ontario
May 29, 1987 CHARTERED ACCOUNTANTS

THE LIV GROUP INCORPORATED
FRANCHISE DIVISION
STATEMENT OF EARNINGS

	Seven Months Ended March 31		Year Ended August 31	
	1987 (Unaudited)	**1986**	**1986**	**1985**
SALES				
Franchised stores	$ 9,845,753	$ 9,799,968	$ 14,509,559	$ 13,634,861
The LIV Group Incorporated	2,290,650	1,984,768	3,292,867	1,797,985
	$ 12,136,403	$ 11,784.736	$ 17,802,426	$ 15,432,846
REVENUE				
Royalty income	$ 546,103	$ 542,777	$ 815,709	$ 801,330
Sale of franchises	39,000	49,700	104,700	133,600
Distribution Income	62,360	19,898	24,849	13,678
	647,463	612,375	945,258	948,608
EXPENSES				
Selling and administration	$ 332,174	$ 305,236	$ 491,584	$ 421,668
Depreciation	4,772	3,343	6,763	5,731
	336,946	308,579	498,347	427,399
NET EARNINGS BEFORE INCOME TAXES	$ 310,517	$ 303,796	$ 446,911	$ 521,209

See accompanying notes to Statement of Earnings.

THE LIV GROUP INCORPORATED
FRANCHISE DIVISION
NOTES TO STATEMENT OF EARNINGS

NOTE I - THE FRANCHISE DIVISION

The Franchise Division of The LIV Group Incorporated is part of the franchise and retail business of The LIV Group Incorporated and comprises those activities which relate to the sale of franchises, the receipt of royalty revenue and the fulfillment of the obligations of The LIV Group incorporated under its franchise agreements. The Franchise Division does not include royalty income from or the operating results of stores operated by The LIV Group Incorporated.

NOTE 2 - EXPENSES OF THE FRANCHISE DIVISION

Certain expenses of The LIV Group Incorporated relate directly to the Franchise Division. Other expenses have been allocated to the Franchise Division by management in a manner considered appropriate.

NOTE 3 - INCOME TAXES

Income taxes of The LIV Group Incorporated are provided at the corporate level and accordingly a provision for income taxes is not included in the statement of earnings of the Franchise Division.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several provinces the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains misrepresentation or is not delivered to the purchaser, such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of his province. The purchaser should refer to any applicable provisions of the securities legislation of his province for the particulars of these rights or consult with a legal advisor.

CERTIFICATES
PANHANDLER GROUP INC.

DATED: May 29,1997.

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of the Securities Act (British Columbia), by Part 8 of the Securities Act (Alberta), by Part XIV of the Securities Act (Ontario) and the respective regulations thereunder.

On behalf of the Corporation

(signed) EDWARD K. LOYST
Edward K. Loyst
Chairman, President and
Chief Executive Officer

(signed) PHILIP GORDON BARNES
Philip Gordon Barnes
Chief Financial Officer

On behalf of the Board of Directors

(signed) DONALD M. McPHAIL
Donald M. McPhail
Director

(signed) LAURENCE POLLEY
Laurence Polley
Director

By the Promoters

(signed) EDWARD K. LOYST
Edward K. Loyst

THE LIVE GROUP INCORPORATED
(signed) EDWARD K. LOYST
By: Edward K. Loyst
President

Dated: May 29, 1987,

To the best of our knowledge, information and belief the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 7 of the Securities Act (British Columbia), by Part 8 of the Securities Act (Alberta), by Part XIV of the Securities Act (Ontario) and the respective regulations thereunder.

OSLER INC.
(signed) J.M. HOUGHTON
By: J.M. Houghton

The following includes the name of every person or company having an interest directly or indirectly to the extent of not less than 5% in the capital of Oster Inc.: V.J. Gaudet, PM. Cohen, P.A. Chesnutt, R. Carrier and R. Rose.