

Microforum Inc.

CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1998

MICROFORUM INC.**CONSOLIDATED BALANCE SHEETS**

	November 30	
	1998	1997
Assets		
Current assets		
Bank	\$ -	\$ 2,974,139
Accounts receivable	4,843,985	1,211,979
Work-in-progress inventory	987,801	293,425
Loans to officers of the Company for share purchases net of provisions of \$366,667 (1997 - \$nil) (Note 8)	-	351,000
Assets of discontinued software and hardware operations (Note 7)	150,000	3,128,933
Current portion of note receivable on sale of Microforum Italia s.r.l. (Note 6)	100,000	100,000
Prepaid expenses and other assets	329,053	104,564
	6,410,839	8,164,040
Capital assets (Note 9)	3,247,389	3,499,517
Note receivable on sale of Microforum Italia s.r.l. (Note 6)	-	100,000
Goodwill (Note 4)	6,346,071	-
Due from related parties (Note 15)	519,124	-
	\$ 16,523,423	\$ 11,763,557
Liabilities		
Current liabilities		
Bank indebtedness (Note 10)	\$ 1,284,804	\$ -
Accounts payable and accrued liabilities	6,751,469	1,668,738
Due to officer (Note 15)	45,798	-
Liabilities of discontinued software and hardware operations (Note 7)	559,821	957,893
Deferred revenue	313,954	-
Current portion of long-term debt (Note 11)	696,017	799,866
	9,651,863	3,426,497
Long-term debt (Note 11)	625,706	1,222,832
Due to officer (Note 15)	771,624	-
	11,049,193	4,649,329
Shareholders' Equity		
Capital stock (Note 12)	27,363,987	12,938,528
Special Warrants (Note 12)	-	7,086,000
Loans to Officers (Note 8)	(1,364,002)	-
Deficit	(20,525,755)	(12,910,300)
	5,474,230	7,114,228
	\$ 16,523,423	\$ 11,763,557
Basis of presentation (Note 1)		

MICROFORUM INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND
DEFICIT**

	Nine months ended November 30,	
	1998	1997
Sales (Note 5)	\$ 22,374,449	\$ 3,910,920
Cost of sales	14,978,711	2,280,739
Gross margin (Note 5)	7,395,738	1,630,181
Operating expenses		
General and administration	7,083,851	2,294,086
Sales and marketing	2,238,967	1,267,558
Research and development	510,515	524,403
Interest on long-term debt	129,995	247,724
	9,963,328	4,333,771
Loss before undernoted items	(2,567,590)	(2,703,590)
Cost of shares issued on renegotiation of acquisition of PPL Marketing Services Inc. (Note 17)	(1,104,000)	-
Provision for writedown of shares pledged for loans to officers (Note 8)	(366,667)	-
Loss from continuing operations	(4,038,257)	(2,703,590)
Recovery (loss) from discontinued software and hardware operations (Note 7)	648,000	(944,061)
Loss from discontinued subsidiary - Microforum Italia s.r.l. (Note 6)	-	(138,432)
Net loss for the period	(3,390,257)	(3,786,083)
Deficit, beginning of year	(17,135,498)	(9,124,217)
Deficit, end of period	\$ (20,525,755)	\$ (12,910,300)
Basic earnings (loss) per share (Note 12)		
From continuing operations	\$ (0.24)	\$ (0.45)
From discontinued operations and subsidiary	0.04	(0.18)
	\$ (0.20)	\$ (0.63)

MICROFORUM INC.**CONSOLIDATED STATEMENTS OF CHANGES
IN FINANCIAL POSITION**

	Nine months to November 30,	
	1998	1997
Cash provided by (used in)		
<i>Operating activities</i>		
Net loss for the period from continuing operations	\$ (4,038,257)	\$ (2,703,590)
Items not affecting cash		
Amortization of capital assets	984,062	686,239
Amortization of goodwill	217,224	-
Provision for shares issued on renegotiation of acquisition of PPL Marketing Services Inc.	1,104,000	-
Provision for writedown of shares pledged for loans to officers	366,667	-
Changes in non-cash working capital	1,721,520	307,241
	355,216	(1,710,110)
<i>Financing activities</i>		
Proceeds on issue of common shares, net	23,172	2,213,515
Loan due to officer on acquisition of subsidiaries	502,500	-
Common shares issued on acquisition of subsidiaries	5,695,000	-
Purchase of shares by officer	1,200,002	-
Common shares received on settlement of note receivable	(100,000)	-
Proceeds on issue of Special Warrants, net	-	7,086,000
Conversion of long-term debt to common shares	-	(1,809,800)
Repayment of long-term debt	(584,952)	(833,484)
Due to related parties	(1,591,765)	(351,000)
	5,143,957	6,305,231
<i>Investment activity</i>		
Acquisition of subsidiary	(7,015,000)	-
Bank indebtedness assumed	(1,963,861)	-
Settlement of note receivable	100,000	-
Acquisition of capital assets, net	(101,323)	(22,073)
	(8,980,184)	(22,073)
Increase (decrease) in cash attributable to continuing operations	(3,481,011)	4,573,048
Increase (decrease) in cash attributable to discontinued software and hardware operations	(26,179)	128,033
Decrease in cash attributable to discontinued subsidiary	-	(367,774)
	(3,507,190)	4,333,307
Cash (bank indebtedness) from continuing operations, beginning of year	2,222,386	(1,359,168)
Cash (bank indebtedness) from continuing operations, end of period	\$ (1,284,804)	\$ 2,974,139

1 Basis of presentation

These financial statements have been prepared on the basis that Microforum Inc. (the "Company") is a going concern and accordingly reflect no adjustments relating to the recoverability and reclassification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in business.

The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient funds from operations or to make other financing arrangements. Subsequent to November 30, 1998, the Company generated cash proceeds of approximately \$2.8 million from the sale of its interest in an electronic magazine and the issuance of special warrants and common shares. The Company also settled current liabilities of \$1.4 million by issuing common shares (see Note 18) and obtained a commitment for aggregate operating lines of credit of \$3.0 million (see Note 10).

2 Nature of operations

Microforum Inc. (the "Company") is a company that provides Internet-based marketing and communications services. The Company and its subsidiaries provide contract advertising, public relations, direct marketing and multimedia services to major corporations in North America. Additionally, the Company is engaged in the development of OnLine Electronic Commerce sites.

3 Significant accounting policies

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary, Internet Frontier Inc., a wholly-owned subsidiary of the Company which was incorporated and started business on June 6, 1996. Also included are the accounts of PPL Marketing Services Inc., Marshall Fenn Communications Inc. and Poste Haste Systems Inc., each of which are wholly-owned subsidiaries acquired April 6, 1998.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined generally on a first-in, first-out basis. Work-in-progress inventory is recorded at cost, which comprises billable labour production and creative material costs for ongoing projects.

Capital assets

Capital assets are recorded at cost. Amortization is provided on computer equipment and software, production, duplication and packaging equipment, and furniture and office equipment primarily using the diminishing-balance basis at rates of 20% - 30% per annum. Leasehold improvements are amortized using the straight-line basis over the terms of the respective leases.

Revenue recognition

Revenue from sale of multimedia services, internet content and internet services is recognized as the services are performed under the terms of the contract and, accordingly, customer deposits received in advance are treated as deferred revenue. Marketing programs, distribution, advertising and public relations revenues are recognized on a completed contract basis.

Use of estimates

Financial statements prepared in conformity with generally accepted accounting principles require management to make estimates and assumptions about reported assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenues and expenses. Management also makes estimates and judgements about future results of operations related to specific elements of the business and operating units in assessing recoverability of assets and recorded values of liabilities. Actual results could differ from those estimates.

Financial instruments

The carrying amounts reported in the balance sheets for accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short-term maturity of those instruments. The carrying value for capital leases and term loans approximate fair value because the rates available for similar types of borrowing arrangements have not changed significantly since the company executed those financing agreements. The carrying amounts for bank loans approximate fair value because they bear interest at variable rates.

Goodwill

The excess of the purchase price over the fair market value of net assets acquired is recorded as goodwill and is amortized on a straight-line basis over 20 years. The company evaluates the carrying value of goodwill for potential permanent impairment on an on-going basis. In order to determine if such permanent impairment exists, the company's management considers each acquired subsidiary's financial condition and estimated fair value. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment is determined.

4 Acquisition of PPL Group

On April 6, 1998, the Company acquired directly and indirectly all the issued and outstanding common shares of PPL Marketing Services Inc., Marshall Fenn Communications Inc. and Poste Haste Systems Inc. (the "PPL Group"). The purchase price for the transaction was \$6,700,000, of which \$5,695,000 was paid by way of issue of 1,627,143 common shares of the Company, \$502,500 was paid by way of cash, and \$502,500 was paid by way of a non-interest bearing promissory note maturing six months after the closing of the transaction secured by a pledge of shares of PPL Marketing Services Inc. On January 20, 1999, the Company's shareholders' approved arrangements under which \$250,000 of this short-term liability is to be converted into common shares at a conversion price of approximately \$0.74 per share and the maturity date with respect to a further \$252,500 of this short-term liability was extended to March 31, 2000. At November 30, 1998, the portion of the note payable to be satisfied by common shares (\$250,000) has been included in accrued liabilities and the balance of the note payable (\$252,500) has been included in amounts Due to Officer (Note 15).

Cash	\$ 502,500
Promissory note	502,500
Fees and expenses attributable to the acquisition	315,000
Common shares issued	5,695,000
Total purchase price	<u>\$ 7,015,000</u>
Net assets acquired	
Current assets	\$ 5,345,974
Capital and other assets	1,456,690
Goodwill	6,563,295
	<u>13,365,959</u>
Bank indebtedness	(1,963,861)
Current liabilities	(3,752,215)
Long-term and other liabilities	(634,883)
Net assets acquired	<u>\$ 7,015,000</u>
Goodwill arising on acquisition	\$ 6,563,295
Less: Amortization to November 30, 1998	<u>217,224</u>
Goodwill as at November 30, 1998	<u>\$ 6,346,071</u>

5 Segmented Information

	November 30, 1998	November 30, 1997
Revenue		
Marketing, programs and distribution	\$ 12,762,323	\$ -
Advertising and public relations	6,099,434	-
Internet and Multimedia services	3,512,692	3,910,920
	<u>22,374,449</u>	<u>3,910,920</u>
Gross margin		
Marketing, programs and distribution	\$ 4,532,895	\$ -
Advertising and public relations	1,139,025	-
Internet and Multimedia services	1,723,818	1,630,181
	<u>7,395,738</u>	<u>1,630,181</u>

6 Sale of Microforum Italia s.r.l.

In accordance with its restructuring strategy, on August 18, 1997 the Company concluded an agreement to sell its interest in its subsidiary, Microforum Italia s.r.l. to the Company's founding shareholders for \$200,000. Under the terms of the agreement, the purchasers shall tender to the company 200,000 common shares of Microforum Inc. over a two year period expiring in September 1999. Price adjustment provisions apply in the event the purchasers elect to substitute cash in lieu of common shares otherwise due to be tendered. As at November 30, 1998, the Company had received 100,000 common shares of Microforum Inc. from the purchasers (Note 12 (b)(v)). The purchasers acquired effective control of Microforum Italia s.r.l. and its subsidiary, Dreamware s.r.l., on July 1, 1997.

7 **Discontinued software development / publishing and hardware distribution operations**

In accordance with its restructuring strategy, the Company discontinued wholesale distribution of hardware equipment during the year ended February 28, 1998. The Company ceased its internal development of software products June 30, 1997 and announced May 14, 1998 (the "measurement date") that it would discontinue all software publishing activities. At February 28, 1998, the company recorded losses of approximately \$4.2 million from discontinued operations which included estimated losses of approximately \$830,000 for the period March 1, 1998 to the disposal date.

Selected financial information for the nine month period ended November 30:

	1998	1997
Revenue		
Software	\$ 836,102	\$ 3,845,321
Hardware distribution	-	158,793
	836,102	4,004,114
Cost of sales and operating expenses	378,916	5,241,143
Recovery (loss) from discontinued software development/ publishing and hardware distributions, before other items	457,186	(1,237,029)
Royalty income	190,814	292,968
Recovery (loss) from discontinued software development/ publishing and hardware distributions for the period	\$ 648,000	\$ (944,061)

Summary of assets and liabilities as at November 30:

	1998	1997
Assets		
Accounts and sundry receivable, net of allowances	\$ 150,000	\$ 1,737,453
Inventories	-	1,391,480
Total assets attributed to discontinued operations	\$ 150,000	\$ 3,128,933
Liabilities		
Accounts payable - trade	\$ 95,821	\$ 654,770
Accrued liabilities	464,000	303,123
Total liabilities attributed to discontinued operations	\$ 559,821	\$ 957,893

8 Loans to officers

	November 30, 1998	November 30, 1997
Non-interest bearing	\$ 1,730,669	\$ 351,000
Allowance for impairment in share value at valuation date	(366,667)	-
Reduction in shareholders' equity	(1,364,002)	-
	\$ -	\$ 351,000

In accordance with the terms of arrangements approved by the Company's shareholders March 24, 1998, the Company may provide financial assistance to allow certain senior officers to exercise options and acquire common shares of the Company up to an aggregate limit of \$2,000,000. Such loans totalling \$1,730,669 at November 30, 1998 are secured by 1,236,667 common shares acquired or issued upon exercise of granted options and, prior to amendment of the terms of such loans, were repayable on the earlier of such date that the officer disposed of his shareholdings or ceased to act as an officer of the Company. The terms of the loans were amended on November 6, 1998 (the "valuation date") to be on a non-recourse basis and to extend the period of repayment to November 30, 2000. Loans to officers were written down to fair value resulting in a charge to income of \$366,667, and the balance of \$1,364,002 was reclassified as a reduction in shareholders' equity. Future loan repayments will result in a corresponding increase in share capital. Subsequent to the end of the third quarter, loan repayments in the amount of \$306,000 were received from a former officer of the Company.

9 Capital assets

	November 30, 1998	November 30, 1997
Cost		
Computer equipment and software	\$ 5,724,900	\$ 4,542,789
Production, duplication and packaging equipment	1,217,210	1,014,121
Furniture, automotive and office equipment	1,260,467	682,359
Leasehold improvements	1,085,555	809,753
	<hr/> 9,288,132	7,049,022
Accumulated amortization		
Computer equipment and software	3,450,500	2,124,689
Duplication and packaging equipment	889,523	682,208
Furniture, automotive and office equipment	732,401	306,433
Leasehold improvements	968,319	436,175
	<hr/> 6,040,743	3,549,505
	<hr/> \$ 3,247,389	\$ 3,499,517

Included in the above capital assets are assets under capital lease with a cost of \$3,477,010 (1997 - \$3,514,635) and accumulated amortization of \$2,236,645 (1997 - \$1,928,434).

10 Bank lines of credit

The Company and its subsidiaries have aggregate revolving demand lines of credit for borrowings up to \$1,700,000 and aggregate non-revolving loan facilities of \$321,474 at November 30, 1998 (\$397,009 at November 30, 1997). Advances under the non-revolving loans are repayable over periods of two to three years. Bank indebtedness arising from the revolving lines of credit and the non-revolving loans bear interest at prime plus ¾% to 1.5% and prime plus 1% to prime plus 2%, respectively. Included in the security for bank indebtedness under the revolving lines of credit and the bank debt described in Note 11 are registered general assignments of book debts and first fixed charges over the assets of the Company and its subsidiaries. Subsequent to the end of the third quarter, the Company and its subsidiaries obtained a commitment for aggregate revolving lines of credit for borrowings up to \$3,000,000 with a major lender, subject to compliance with certain financial covenants.

11 Long-term debt

Future minimum payments under capital lease obligations and bank loans and the present value of the minimum lease payments are as follows:

	Capital leases	Bank loans	Total
1999	\$ 450,000	\$ 300,553	\$ 750,553
2000	450,000	129,839	579,839
2001	36,823	31,000	67,823
Total payments due	936,823	461,392	1,398,215
Less: Imputed interest	76,492	-	76,492
	860,331	461,392	1,321,723
Less: Current portion	395,464	300,553	696,017
November 30, 1998	\$ 464,867	\$ 160,839	\$ 625,706
November 30, 1997	\$ 861,972	\$ 360,860	\$ 1,222,832

- (a) Capital lease obligations bear interest at a rate of approximately 8%. Security under capital lease obligations is provided by a first fixed charge over the related capital asset.
- (b) In addition to the non-revolving loans (Note 10), included in bank loans is \$148,000 (November 30, 1997 - \$176,000) which bears interest at 7.25%.

12 Capital stock

	November 30, 1998	November 30, 1997
Authorized		
Unlimited number of common shares		
Unlimited number of preference shares		
Issued capital		
17,733,966 (1997 – 7,106,551) common shares	\$ 27,363,987	\$ 12,938,528

- (a) During the year ended February 28, 1998, the following capital transactions occurred:
- (i) On September 18, 1997, the Company completed a private placement of 8,000,000 Special Warrants for gross proceeds of \$8,000,000 before deducting fees and expenses incurred of \$914,000. Under the terms of the offering, the Special Warrant holders acquired, without additional payment, an aggregate of 8,000,000 common shares of the Company upon issue of a receipt for the final prospectus from the Ontario Securities Commission on December 16, 1997. The Company granted the Agents' non-assignable Compensation Warrants, representing the right to acquire, for no additional consideration, Compensation Options. The Compensation Options entitled the Agents to subscribe for up to 800,000 Common Shares at an exercise price of \$1.05 per share at any time up to December 17, 1999.
 - (ii) On September 18, 1997, the Company concluded arrangements with various creditors under which an aggregate of \$1,809,800 of long-term debt was converted into 904,900 common shares at a conversion price of \$2.00 per share.
 - (iii) On October 14, 1997, the Company issued 450,000 common shares to Mr. Eric H. Winston, the President and Chief Executive Officer of the Corporation for consideration of \$351,000. The consideration was a non-interest bearing loan (Note 8).
 - (iv) On December 12, 1997, the Company issued 20,000 common shares to the former General Manger of the Corporation for consideration of \$25,000. The consideration was a non-interest bearing loan (Note 8).
 - (v) On December 30, 1997, the Company issued 150,000 common shares to Mr. Eric H. Winston, the President and Chief Executive Officer of the Corporation for consideration of \$117,000. The consideration was a non-interest bearing loan (Note 8).
 - (vi) On January 5, 1998, the Company issued 33,333 common shares to the Chief Financial Officer of the Corporation for consideration of \$37,666. The consideration was a non-interest bearing loan (Note 8).
 - (vii) On January 14, 1998 and February 26, 1998, the Company issued 300,000 shares in aggregate upon exercise of Compensation Options to the Agents for cash consideration of \$315,000.

- (viii) During the third quarter of the fiscal year, the Company issued 47,091 common shares to employees and service providers under the provisions of its Stock Option Plan for cash consideration of \$53,213.
- (b) During the nine months ended November 30, 1998, the following capital transactions occurred:
 - (i) On April 6, 1998, the Company issued 1,627,143 common shares as partial consideration for the acquisition of PPL Marketing Services Inc., Marshall Fenn Communications Inc. and Poste Haste Systems Inc., such shares having a value of \$5,695,000 (Note 4).
 - (ii) On April 16, 1998 the Company issued 333,334 common shares to Mr. Eric H. Winston, the President and Chief Executive Officer of the Corporation for consideration of \$1,050,002. The consideration was a non-interest bearing loan (Note 8).
 - (iii) During April, 1998, the Company issued 9,665 common shares to employees under the provisions of its Stock Option Plan for cash consideration of \$10,921.
 - (iv) During September, 1998, certain outside directors were granted 3,500 common shares. The consideration was paid for services rendered of \$12,250.
 - (v) During November, 1998, the Company received 100,000 common shares in satisfaction of \$100,000 of notes receivable arising on the sale of Microforum Italia s.r.l. (Note 6).
 - (vi) On November 5, 1998 the Company issued 250,000 common shares to Mr. Eric H. Winston, the President and Chief Executive Officer of the Corporation for consideration of \$150,000. The consideration was a non-interest bearing loan (Note 8).

Basic earnings (loss) per share

Basic earnings (loss) per share is calculated using a weighted average number of outstanding shares of approximately 17,325,088 (November 30, 1997 – 6,029,995). Fully diluted earnings (loss) per share data are not presented as they are anti-dilutive.

Stock options

Pursuant to a plan authorized by the directors on April 1, 1996, as amended (the “ Stock Option Plan”), options were granted to directors, officers, employees and other service providers, entitling the holders to purchase an aggregate of 2,279,734 Common Shares from treasury, exercisable at a price equal to or greater than the market price on the day preceding the date of grant. These options vest over a three year period, commencing on the first anniversary of the date of grant and expire on or before the tenth anniversary of the date of grant.

In addition, the Company has also granted the following options:

- (i) up to 500,000 Common Shares from treasury upon exercise of Compensation Options granted to the Agents under the terms of the Special Warrants financing completed on September 18, 1997, exercisable at \$1.05 per share, until December 17, 1999; and,
- (ii) up to 300,000 Common Shares from treasury to a service provider, exercisable at \$3.60 per share, until September 18, 1999.

13 **Income taxes**

The Company's effective income tax rate varies from the combined Canadian federal and provincial tax rates as follows:

	1998	1997
Basic combined federal and provincial rate	44.62%	44.62%
Losses not recognized for accounting	(44.62)	(44.62)
Total	- %	- %

As of November 30, 1998, the Company had losses available to offset future taxable income of approximately \$21.1 million. If unutilized, these losses will expire in 2003 (\$0.2 million), 2004 (\$8.5 million), 2005 (\$9.5 million) and 2006 (\$2.9 million). The benefit of these tax losses has not been recognized in these financial statements.

14 **Commitments**

The Company and its subsidiaries have entered into operating leases for premises, vehicles and equipment with annual rentals as follows:

1999	\$ 845,000
2000	653,000
2001	245,000
2002	130,000
2003	117,000

15 Related party transactions

Amounts due from / (to) related parties are detailed as follows as at November 30, 1998:

a. Due from Elliot & Andrews Studios Inc.	\$ 370,000
b. Due from Clubhouse Communications Group Inc.	149,124
	<hr/>
Due from related parties	519,124
	<hr/>
c. Due to officer	\$ 817,422
Less: current portion of amount due to officer	45,798
	<hr/>
Due to officer	771,624
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The companies in (a) and (b) are ultimately controlled by a former controlling shareholder of the PPL Group who is an officer of the Company. All amounts are non-interest bearing and due on demand. The Company does not expect to demand payment within the next twelve months and, accordingly, the amounts have been recorded as long-term assets.

The officer (c) is a former controlling shareholder of the PPL Group and has indicated that he will not demand repayment of \$771,624 within the next twelve months. Accordingly, \$45,798 of the \$771,624 has been recorded as a short-term liability as at November 30, 1998.

16 Economic dependence

The Company earns a significant portion of its marketing, program and distribution revenue from three customers who are jointly controlled. The Company separately negotiates annual renewals of its contracts with each of the three customers. As at November 30, 1998, approximately 48% of the accounts receivable balance and 40% of revenues were derived from these three customers.

17 Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

18 **Subsequent events**

- (a) On December 3, 1998, the Company completed a private placement of 4,000,000 Special Warrants for gross proceeds of \$2,000,000 before deducting estimated fees and expenses of \$305,000. Each Special Warrant entitles the holder to acquire one Unit consisting of one Common Share and one-half of one Purchase Warrant upon the exercise of the Special Warrants in accordance with the terms of a Special Warrant Indenture made as of December 2, 1998 between the Company and Montreal Trust Company of Canada, as trustee. The Company granted the Agent non-assignable Compensation Options entitling the Agent to subscribe for up to 280,000 Units which will result in issuance of up to 420,000 Common Shares (assuming the exercise of the Purchase Warrants and not the penalty shares as described below) at an exercise price of \$0.52 per share at any time up to December 2, 2000. In the event that a receipt for a final prospectus of the Company qualifying the issuance of the Common Shares and the Purchase Warrants is not issued by the Ontario Securities Commission by April 1, 1999, each Special Warrant shall entitle the holder thereof to acquire 1.1 Common Shares (in lieu of one Common Share) and 0.55 Purchase Warrants (in lieu of one-half of one Purchase Warrant) for no additional consideration.
- (b) In accordance with its restructuring strategy, on January 6, 1999, the Company concluded an agreement to sell its interest in its electronic magazine, Gamesmania, for approximately \$413,000. Under the terms of the agreement, the Company received cash consideration of approximately \$375,000 at closing and a promissory note of approximately \$38,000, payable 90 days after the closing of the transaction.
- (c) For the period December 1, 1998 to January 18, 1999, 400,000 Common Shares were issued from treasury upon exercise of Compensation Options granted to the agents on the transaction pursuant to the terms of the special warrant financing completed on September 18, 1997, for cash consideration of \$420,000.
- (d) On January 20, 1999, the Company's shareholders approved certain transactions, approved by its Board of Directors on November 6, 1998, including:
 - (i) Share compensation rights issued pursuant to terms of severance under which Mr. Eric H. Winston, the former President and Chief Executive Officer of the Company, was granted the right to acquire up to 250,000 Common Shares at an issue price of \$0.55 per share, representing the closing market price on November 5, 1998;
 - (ii) As a result of renegotiation of the terms of the original agreement to acquire the shares of PPL Marketing Services Inc., issuance of 1,500,000 Common Shares to the former controlling shareholder of the PPL Group and current President and Chief Executive Officer of the Company. A liability for the cost of the 1,500,000 Common Shares issued of approximately \$1,104,000 has been accrued and charged to income at November 30, 1998.
- (e) On January 20, 1999, the Company's shareholders approved the granting of options to a service provider to acquire up to 200,000 Common Shares from treasury, exercisable at \$0.85 per share, representing the closing market price on November 29, 1998.

- (f) On January 20, 1999, the Company's shareholders approved an arrangement under which \$50,000 of trade accounts payable to a service provider was converted into 58,823 Common Shares at a conversion price of \$0.85 per share, representing the closing market price on November 29, 1998.