

# **Microforum Inc.**

Consolidated Financial Statements  
**February 28, 1999 and 1998**

May 10, 1999

## **Auditors' Report**

### **To the Shareholders of Microforum Inc.**

We have audited the consolidated balance sheets of **Microforum Inc.** as at February 28, 1999 and 1998 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 1999 and 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

(signed) **PricewaterhouseCoopers LLP**  
**Chartered Accountants**

# Microforum Inc.

## Consolidated Balance Sheets

As at February 28, 1999 and 1998

	1999 \$	1998 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash (note 15)	–	2,222,386
Accounts receivable	6,859,997	1,238,883
Inventories	–	129,222
Work-in-progress	1,378,225	–
Loans to officers of the Company for share purchases (note 4)	–	530,666
Assets of discontinued software and hardware operations (note 3)	150,000	300,000
Current portion of note receivable on sale of Microforum Italia s.r.l. (note 3)	100,000	100,000
Prepaid expenses and other assets	215,449	37,734
	<hr/>	<hr/>
	8,703,671	4,558,891
<b>Capital assets</b> (note 5)	3,120,531	3,217,562
<b>Goodwill</b> (note 2)	6,272,830	–
<b>Due from related parties</b> (note 13)	519,124	–
<b>Note receivable on sale of Microforum Italia s.r.l.</b> (note 3)	–	100,000
	<hr/>	<hr/>
	18,616,156	7,876,453
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 6)	1,354,554	–
Accounts payable and accrued liabilities	5,021,827	1,352,119
Deferred revenue	106,587	–
Liabilities of discontinued software and hardware operations (note 3)	299,860	1,384,000
Current portion of long-term debt (note 7)	694,655	643,794
	<hr/>	<hr/>
	7,477,483	3,379,913
<b>Long-term debt</b> (note 7)	474,330	1,086,225
<b>Due to shareholder</b> (note 13)	771,624	–
	<hr/>	<hr/>
	8,723,437	4,466,138
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 8)	30,390,852	20,545,813
<b>Loans to officers</b> (note 4)	(512,167)	–
<b>Deficit</b>	(19,985,966)	(17,135,498)
	<hr/>	<hr/>
	9,892,719	3,410,315
	<hr/>	<hr/>
	18,616,156	7,876,453

Approved by the Board of Directors

"Donald W. Paterson" Director

"J. Efrim Boritz" Director

# Microforum Inc.

## Consolidated Statements of Operations and Deficit For the years ended February 28, 1999 and 1998

	1999 \$	1998 \$
<b>Sales</b> (notes 11 and 15(b))	29,148,575	5,230,268
<b>Cost of sales</b>	19,615,902	2,741,383
<b>Gross profit</b>	9,532,673	2,488,885
<b>Operating expenses</b>		
General and administration	8,533,369	3,686,126
Sales and marketing	2,783,977	1,551,911
Research and development	662,193	666,643
Interest on long-term debt	270,635	304,633
	12,250,174	6,209,313
<b>Loss before undernoted items</b>	(2,717,501)	(3,720,428)
<b>Cost of shares issued on renegotiation of acquisition of PPL Marketing Services Inc.</b> (note 8(a))	(1,104,000)	–
<b>Provision for writedown of shares pledged for loans to officers</b> (note 4)	(366,667)	–
<b>Gain on sale of Gamesmania</b> (note 3(c))	407,700	–
<b>Loss from continuing operations</b>	(3,780,468)	(3,720,428)
<b>Recovery (loss) from discontinued software and hardware operations</b> (note 3(a))	930,000	(4,152,422)
<b>Loss from discontinued subsidiary – Microforum Italia s.r.l.</b> (note 3(b))	–	(138,432)
<b>Net loss for the year</b>	(2,850,468)	(8,011,282)
<b>Deficit – Beginning of year</b>	(17,135,498)	(9,124,216)
<b>Deficit – End of year</b>	(19,985,966)	(17,135,498)
<b>Basic earnings (loss) per share</b> (note 8(c))		
From continuing operations	(0.23)	(0.47)
From discontinued operations and discontinued subsidiary	0.06	(0.54)
	(0.17)	(1.01)

# Microforum Inc.

## Consolidated Statements of Changes in Financial Position For the years ended February 28, 1999 and 1998

	1999 \$	1998 \$
<b>Cash provided by (used in) operating activities</b>		
Loss from continuing operations	(3,780,468)	(3,720,428)
Items not affecting cash		
Amortization of capital assets	1,204,157	909,154
Amortization of goodwill	330,149	-
Cost of 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 items	(1,194,004)	136,418
	<u>(1,969,499)</u>	<u>(2,674,856)</u>
<b>Cash provided by (used in) financing activities</b>		
Proceeds on issue of common shares – net	852,871	9,820,800
Long-term debt – net of repayments	(737,690)	(1,126,164)
Conversion of long-term debt to common shares	-	(1,809,800)
Due to related parties	(1,469,064)	(530,666)
Common shares issued on acquisition of subsidiaries	5,695,000	-
Loan due to officer on acquisition of subsidiaries	502,500	-
Purchase of shares by officers	1,031,503	-
Common shares received in settlement of note receivable	(100,000)	-
Proceeds on issue of special warrants	1,695,000	-
	<u>7,470,120</u>	<u>6,354,170</u>
<b>Cash provided by (used in) investing activities</b>		
Acquisition of capital assets – net	(194,560)	37,010
Acquisition of subsidiaries	(7,015,000)	-
Bank indebtedness assumed	(1,963,861)	-
Settlement of note receivable	100,000	-
	<u>(9,073,421)</u>	<u>37,010</u>
<b>Increase (decrease) in cash attributable to continuing operations</b>	(3,572,800)	3,716,324
<b>Increase (decrease) in cash attributable to discontinued software and hardware operations</b>	(4,140)	233,004
<b>Decrease in cash attributable to discontinued subsidiary</b>	-	(367,774)
	<u>(3,576,940)</u>	<u>3,581,554</u>
<b>Cash (bank indebtedness) from continuing operations – Beginning of year</b>	2,222,386	(1,359,168)
<b>Cash (bank indebtedness) from continuing operations – End of year</b>	<u>(1,354,554)</u>	<u>2,222,386</u>

## **1 Summary of significant accounting policies**

### **Consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries, Internet Frontier Inc., a wholly owned subsidiary of the Company which was incorporated and started business on June 6, 1996 and the PPL Group of Companies (the PPL Group) (note 2).

### **Inventories/work-in-progress**

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, duplication and packaging equipment, furniture, automotive and office equipment 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.

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.

**Foreign currency translation**

Monetary assets and liabilities are translated at year-end exchange rates. Revenues and expenses are translated at average rates of exchange during the year. Gains and losses on translation are included in the consolidated statements of operations.

**Goodwill**

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

**Income taxes**

The Company follows the deferral method of accounting for income taxes.

**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.

## 2 Acquisition of the PPL Group

Effective March 1, 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., collectively, 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 was converted into common shares at a conversion price of \$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.

	\$
Purchase price	6,700,000
Fees and expenses attributable to the acquisition	<u>315,000</u>
Total costs of acquisition	<u>7,015,000</u>
Net assets acquired	
Current assets	5,345,974
Capital and other assets	1,456,690
Goodwill	<u>6,602,979</u>
	13,405,643
Liabilities assumed	
Bank indebtedness	(1,963,861)
Current liabilities	(3,791,899)
Long-term and other liabilities	<u>(634,883)</u>
Net assets	<u>7,015,000</u>
Goodwill arising on acquisition	6,602,979
Amortization	<u>(330,149)</u>
Goodwill at February 28, 1999	<u>6,272,830</u>

## 3 Discontinued operations and disposals

### a) Discontinued software development/publishing and hardware distribution operations

In accordance with its restructuring strategy, the Company discontinued wholesale distribution of hardware equipment during fiscal 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.

Selected financial information:

	<b>1999</b>	<b>1998</b>
	\$	\$
Revenue		
Software	839,427	4,925,409
Hardware distribution	–	158,793
	<hr/>	<hr/>
	839,427	5,084,202
Cost of sales and operating expenses	117,877	8,406,265
	<hr/>	<hr/>
Recovery (loss) from discontinued software development/publishing and hardware distributions before other items	721,550	(3,322,063)
Royalty income	208,450	–
Estimated loss from discontinued software publishing to disposal date	–	(830,359)
	<hr/>	<hr/>
Recovery (loss) from discontinued software development/publishing and hardware distribution operations	930,000	(4,152,422)
	<hr/>	<hr/>

Summary of assets and liabilities:

	<b>1999</b>	<b>1998</b>
	\$	\$
Assets		
Trade accounts receivable – net of allowances	150,000	300,000
	<hr/>	<hr/>
Total assets attributed to discontinued operations	150,000	300,000
	<hr/>	<hr/>
Liabilities		
Accounts payable – trade	–	470,000
Accrued liabilities	299,860	914,000
	<hr/>	<hr/>
Total liabilities attributed to discontinued operations	299,860	1,384,000
	<hr/>	<hr/>

**b) 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 presently held in 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. The purchasers were also obliged to arrange for adequate refinancing such that a \$200,000 letter of credit issued by the Company in support of indebtedness incurred by Microforum Italia s.r.l. was released in full in June 1998. The purchasers acquired effective control of Microforum

Italia s.r.l. and its subsidiary, Dreamware s.r.l., on July 1, 1997. During November 1998, the Company received 100,000 common shares of Microforum Inc. from the purchasers. In April 1999, the Company sold these shares for proceeds of approximately \$214,000.

**c) Sale of Gamesmania**

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, which was paid approximately 90 days after the closing of the transaction.

**4 Loans to officers**

	<b>1999</b>	<b>1998</b>
	<b>\$</b>	<b>\$</b>
Non-interest bearing loans	1,868,169	530,666
Allowance for impairment in share value at valuation date	(366,667)	–
Loan repayments received	(306,000)	–
Settlement of loan by return of shares	(683,335)	–
Reduction in shareholders' equity	(512,167)	–
	<hr/>	<hr/>
	–	530,666

In accordance with the terms of arrangements approved by the Company's shareholders at 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 \$512,167 at February 28, 1999 (1998 – \$530,666) are secured by 703,333 (1998 – 653,333) common shares acquired or issued upon exercise of the 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. The loans to officers were written down to fair value resulting in a charge to income of \$366,667, and the balance of \$1,501,502 was reclassified as a reduction in shareholders' equity. Future loan repayments will result in a corresponding increase in share capital. During December 1998 and January 1999, loan repayments totalling \$306,000 were received from a former officer of the Company. Subsequent to year-end, the Company received repayments of \$512,167 representing all loans outstanding at February 28, 1999.

Pursuant to severance arrangements entered into with the former President and Chief Executive Officer, the Company received share certificates of the Company representing 333,334 common shares issued on April 16, 1998. Subsequent to year-end, these shares and the related promissory note were cancelled.

## 5 Capital assets

	1999 \$	1998 \$
Cost		
Computer equipment and software	4,938,390	4,468,691
Duplication and packaging equipment	1,240,744	1,023,473
Furniture, automotive and office equipment	951,565	688,066
Leasehold improvements	966,410	809,753
	<u>8,097,109</u>	<u>6,989,983</u>
Less: Accumulated amortization		
Computer equipment and software	2,809,354	2,266,523
Duplication and packaging equipment	866,176	702,668
Furniture, automotive and office equipment	456,110	329,509
Leasehold improvements	844,938	473,721
	<u>4,976,578</u>	<u>3,772,421</u>
	<u>3,120,531</u>	<u>3,217,562</u>

Included in the above capital assets are assets under capital lease with a cost of \$3,477,010 (1998 – \$3,477,010) and accumulated amortization of \$2,309,684 (1998 – \$2,017,536).

## 6 Bank line of credit

The Company has a revolving line of credit for borrowings up to \$3,000,000 and aggregate non-revolving loan facilities of \$267,083 at February 28, 1999 (1998 – \$354,472). Advances under the non-revolving loans are repayable over three years. Bank indebtedness arising from the revolving line of credit and the non-revolving loans bear interest at prime plus 1.5% and prime plus 1%, respectively. Included in the security for bank indebtedness under the revolving line of credit and the bank debt described in note 7 is a registered general assignment of book debts and a first fixed charge over the assets of the Company. The Company is subject to certain financial covenants under its loan arrangements with its banker.

## 7 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:

	<b>Capital leases \$</b>	<b>Bank loans \$</b>	<b>Total \$</b>
2000	450,000	291,228	741,228
2001	374,323	88,355	462,678
2002	–	25,000	25,000
	<hr/>		
Total payments due	824,323	404,583	1,228,906
Less: Imputed interest	59,921	–	59,921
	<hr/>		
	764,402	404,583	1,168,985
Less: Current portion	403,427	291,228	694,655
	<hr/>		
February 28, 1999	360,975	113,355	474,330
	<hr/>		
February 28, 1998	764,401	321,824	1,086,225
	<hr/>		

- a) Capital lease obligations bear interest at rates varying from 8% to 20%. Security under capital lease obligations is provided by a first fixed charge over the related capital asset. On September 18, 1997, \$750,000 of capital lease obligations were converted into 375,000 common shares of the Company (note 8(a)).
- b) In addition to the non-revolving loans (note 6), included in bank loans is \$137,500 (1998 – \$179,500), which bears interest at 7.25%. On September 18, 1997, \$359,800 of bank loan obligations were converted into 179,900 common shares of the Company (note 8(a)).

## 8 Capital stock

### Authorized

Unlimited number of common shares  
 Unlimited number of preference shares

### Issued capital

	<b>1999</b>	<b>1998</b>
	\$	\$
20,005,296 (1998 – 15,610,324) common shares	28,695,852	20,545,813
4,000,000 (1998 – nil) special warrants	1,695,000	–
	<u>30,390,852</u>	<u>20,545,813</u>

### a) Common shares

	<b>Number of shares</b>	<b>Amount \$</b>
<b>Balance – February 28, 1997</b>	5,705,000	10,725,013
Issued on conversion of special warrants – net of issue costs	8,000,000	7,112,121
Issued on conversion of long-term debt	904,900	1,809,800
Issued to senior officers for non-interest bearing loans (note 4)	653,333	530,666
Issued for cash under stock option arrangements	347,091	368,213
	<u>15,610,324</u>	<u>20,545,813</u>
<b>Balance – February 28, 1998</b>	15,610,324	20,545,813
Issued on acquisition of PPL Group (note 2)	1,627,143	5,695,000
Issued to senior officers for non-interest bearing loans – net of severance arrangements (note 4)	500,000	654,168
Received in satisfaction of note receivable arising on sale of Microforum Italia s.r.l. (note 3(b))	(100,000)	(100,000)
Issued for cash under stock option arrangements	462,332	474,821
Issued to directors for services rendered	7,000	22,050
Issued on renegotiation of the terms of the original agreement to acquire PPL Marketing Services Inc. and settlement of promissory note (note 2)	1,839,674	1,354,000
Issued on conversion of trade accounts payable	58,823	50,000
	<u>20,005,296</u>	<u>28,695,852</u>
<b>Balance – February 28, 1999</b>	20,005,296	28,695,852

**b) Special warrants**

On December 2, 1998, the Company completed a private placement of 4,000,000 special warrants for gross proceeds of \$2,000,000 (i.e., \$0.50 per special warrant) 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 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 the issuance of up to 420,000 common shares at an exercise price of \$0.52 per share at any time up to December 2, 2000. A receipt for a (final) prospectus of the Company qualifying the distribution of the common shares and common share purchase warrants was issued by the Ontario Securities Commission on March 31, 1999.

**c) Basic earnings (loss) per share**

Basic earnings (loss) per share are calculated using a weighted average number of outstanding shares of approximately 16,690,528 (1998 – 7,931,100). Fully diluted earnings per share data are not presented as they are anti-dilutive.

**d) Stock options**

Pursuant to a plan authorized by the directors on April 1, 1996, as amended, options were granted to directors, officers, employees and other service providers, entitling the holders to purchase common shares from treasury. 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. The following options were outstanding at February 28, 1999:

<b>Expiry date</b>	<b>Exercise price \$</b>	<b>Number of options</b>
2006	1.13	73,410
2006	6.50	75,000
2007	1.13 – 1.25	296,667
2007	4.90	119,000
2008	0.60	271,494
2008	1.24	157,500
2008	1.30 – 1.35	295,833
2008	3.15	770,663
2008	3.50	375,000
2009	2.35	105,000
		<hr/>
		2,539,567

At February 28, 1999, 888,346 of these options had vested.

In addition, the Company has granted the following options, which are outstanding at February 28, 1999:

	<b>Number of options</b>	<b>Exercise price \$</b>	<b>Expiry date</b>
Compensation options	100,000	1.05	December 17, 1999
Compensation options	420,000	0.52	December 2, 2000
Service provider	150,000	0.85	November 30, 1999
Service provider	300,000	3.60	September 18, 1999

## 9 Income taxes

As of February 28, 1999, the Company had losses available to offset future taxable income of approximately \$22.7 million. If unutilized, these losses will expire in 2003 (\$0.3 million), 2004 (\$8.6 million), 2005 (\$9.3 million) and 2006 (\$4.5 million). The benefit of these tax losses has not been recognized in these financial statements, which primarily accounts for the Company's effective tax rate differing from the statutory rate.

## 10 Operating lease commitments

The Company has entered into operating leases for premises and equipment with annual rentals as follows:

	\$
2000	845,000
2001	653,000
2002	245,000
2003	130,000
2004	117,000

## 11 Segmented information

In 1999, the Company adopted CICA Section 1701, Segment Disclosures. The accounting policies of the segments are the same as those described in note 1. For the year ended February 28, 1998, the Company's continuing operations were in one segment being Internet and multimedia services. For the year ended February 28, 1999, the Company's continuing operations are in three distinct segments as reported below, which do not include any information with respect to Software Guaranty Inc. (note 15(b)).

The Company is an e-commerce applications, content, technology service corporation providing a broad range of e-commerce, creative and database marketing services to a list of recognized North American based clients. The Company has redirected its strategic focus to become a total response, Internet based commerce and strategic marketing organization.

Areas of expertise include e-commerce and related software development, Web design, leading-edge animation, video and digital design, strategic marketing, direct marketing, contest and incentive programs, special event

management, telemarketing, warehousing, distribution and fulfillment services, advertising, public relations, database development and management, lettershop and variable imaging, CD-ROM and disc duplication.

	<b>Marketing programs and distribution \$</b>	<b>Advertising and public relations \$</b>	<b>Internet and multimedia services \$</b>	<b>Eliminations \$</b>	<b>Total \$</b>
Sales	15,641,192	8,470,673	5,380,551	(343,841)	29,148,575
Operating and other expenses	16,684,692	8,589,973	7,998,219	(343,841)	32,929,043
Loss from continuing operations	(1,043,500)	(119,300)	(2,617,668)	–	(3,780,468)
Identifiable assets from continuing operations	6,965,628	2,387,267	4,270,615	4,742,646	18,366,156

The Company's predominant geographic segment is Canada.

## 12 Economic dependence

For the year ended February 28, 1999, the Company earned a significant portion of its marketing, program and distribution revenue from two customers. As at February 28, 1999, approximately 51% of the accounts receivable balance and 55% of revenues for the year then ended were derived from these two customers.

## 13 Related party transactions

Amounts due from/to related parties are detailed as follows as at February 28, 1999:

	\$
Due from related parties	
Due from Elliot & Andrews Studios Inc. (a)	370,000
Due from Tribco Communications Group Inc. (b)	149,124
	<u>519,124</u>
Due to related party	
Due to shareholder (c)	<u>771,624</u>

The companies in (a) and (b) are ultimately controlled by a former controlling shareholder of the PPL Group who is an officer, director and shareholder 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.

Amounts due to the shareholder in (c) are non-interest bearing and due on demand except for \$252,500 (note 2). The shareholder has indicated that he will not demand repayment of balances due on demand within the next twelve months.

## **14 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.

## **15 Subsequent events**

- a) On March 8, 1999, the Company completed a private placement of 2,891,739 special warrants for gross proceeds of \$3,325,500 before deducting estimated fees and expenses of \$425,000. Each special warrant entitles the holder to acquire one common share in accordance with the terms of a special indenture made as of March 8, 1999 between the Company and Montreal Trust Company of Canada, as trustee. The Company granted the agents non-assignable compensation options entitling the agents to subscribe for in the aggregate up to 202,422 common shares at an exercise price of \$1.38 per share at any time on or before March 8, 2001. In the event that a receipt for a final prospectus of the Company qualifying the issuance of the common shares is not issued by the Ontario Securities Commission by July 6, 1999, each special warrant shall entitle the holder thereof to acquire 1.05 common shares (in lieu of one common share) for no additional consideration.

- b) On March 9, 1999, the Company acquired all the issued and outstanding common shares of Software Guaranty Inc. The purchase price for the transaction, which was determined with reference to the balance sheet at November 30, 1998, was \$3,126,000, of which \$2,250,000 was paid by way of cash and \$876,000 was paid by way of common shares of the Company.

	\$
Purchase price	3,126,000
Fees and expenses attributable to the acquisition	<u>37,500</u>
	<u>3,163,500</u>
Net assets acquired	
Current assets	1,649,000
Capital assets	297,000
Goodwill	<u>2,164,500</u>
	4,110,500
Liabilities assumed	<u>(947,000)</u>
	<u>3,163,500</u>

The following table reflects the results of Software Guaranty Inc. for the year ended February 28, 1999, which are not included in the results of the Company for the year ended February 28, 1999:

	<b>Nine-month period ended November 30, 1998 \$</b>	<b>Three-month period ended February 28, 1999 \$</b>	<b>Total \$</b>
Revenue	<u>1,460,007</u>	<u>909,913</u>	<u>2,369,920</u>
Net income for the period	<u>49,477</u>	<u>80,456</u>	<u>129,933</u>

- c) On May 10, 1999, the Company completed a private placement of 3,100,000 special units for gross proceeds of \$20,150,000 (i.e., \$6.50 per special unit). Each special unit entitles the holder to acquire one common share and one-half of one common share purchase warrant for no additional consideration. Each whole common share purchase warrant shall entitle the holder thereof to acquire one common share at an exercise price of \$10 per common share until September 10, 2000. The Company granted the agent non-assignable compensation options entitling the agent to subscribe for 310,000 special units at an exercise price of \$6.50 per unit at any time on or before November 10, 2000. In the event that a receipt for a final prospectus of the Company qualifying the issuance of the common shares is not issued by the Ontario Securities Commission by July 9, 1999, each special unit shall entitle the holder thereof to acquire 1.10 special units for no additional consideration.