

# **Microforum Inc.**

Interim Consolidated Financial Statements  
**May 31, 1999 and 1998**

# Microforum Inc.

## Interim Consolidated Balance Sheets

As at May 31, 1999 and 1998

	1999 \$	1998 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	822,074	–
Marketable Securities	18,600,000	–
Accounts receivable	10,077,288	5,262,988
Work-in-progress	2,007,559	1,100,578
Loans to officers of the Company for share purchases (note 4)	–	1,580,668
Assets of discontinued software and hardware operations (note 3)	–	–
Current portion of note receivable on sale of Microforum Italia s.r.l. (note 3)	100,000	100,000
Prepaid expenses and other assets	559,288	406,215
	<hr/>	<hr/>
	32,166,209	8,450,449
<b>Capital assets</b> (note 5)	3,367,970	3,888,070
<b>Goodwill</b> (note 2)	8,355,499	6,508,989
<b>Due from related parties</b> (note 13)	519,124	544,124
<b>Note receivable on sale of Microforum Italia s.r.l.</b> (note 3)	–	100,000
	<hr/>	<hr/>
	44,408,802	19,491,632
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 6)	–	1,210,460
Accounts payable and accrued liabilities	6,109,859	3,765,604
Deferred revenue	1,479,839	568,739
Liabilities of discontinued software and hardware operations (note 3)	128,046	824,500
Note payable (note 2)	–	502,500
Due to shareholder (note 13)	252,500	121,193
Current portion of long-term debt (note 7)	694,655	700,763
	<hr/>	<hr/>
	8,664,899	7,696,759
<b>Long-term debt</b> (note 7)	307,855	980,324
<b>Due to shareholder</b> (note 13)	519,124	544,124
	<hr/>	<hr/>
	9,491,878	9,218,207
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 8)	54,959,081	27,301,737
<b>Contributed Surplus</b>	113,900	–
<b>Deficit</b>	<hr/>	<hr/>
	(20,156,057)	(17,028,312)
	<hr/>	<hr/>
	34,916,924	10,273,425
	<hr/>	<hr/>
	44,408,802	19,491,632

# Microforum Inc.

## Interim Consolidated Statements of Operations and Deficit For the periods ended May 31, 1999 and 1998

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	<b>1999</b>	<b>1998</b>
	\$	\$
<b>Sales</b> (note 11)	9,707,481	6,197,848
<b>Cost of sales</b>	<u>6,275,614</u>	<u>3,873,183</u>
<b>Gross profit</b>	<u>3,431,867</u>	<u>2,324,665</u>
<b>Operating expenses</b>		
General and administration	2,969,146	1,776,013
Sales and marketing	686,234	552,437
Research and development	-	175,558
Interest on long-term debt	<u>26,678</u>	<u>48,471</u>
	<u>3,682,058</u>	<u>2,552,479</u>
<b>Loss from continuing operations</b>	(250,191)	(227,814)
<b>Recovery (loss) from discontinued software and hardware operations</b> (note 3(a))	<u>80,000</u>	<u>335,000</u>
<b>Net income (loss) for the period</b>	(170,191)	107,186
<b>Deficit – Beginning of period</b>	<u>(19,985,866)</u>	<u>(17,135,498)</u>
<b>Deficit – End of period</b>	<u>(20,156,057)</u>	<u>(17,028,312)</u>
<b>Basic earnings (loss) per share</b> (note 8(c))		
From continuing operations	(0.01)	(0.01)
From discontinued operations and discontinued subsidiary	<u>-</u>	<u>0.02</u>
	<u>(0.01)</u>	<u>0.01</u>

# Microforum Inc.

## Interim Consolidated Statements of Cash Flows For the periods ended May 31, 1999 and 1998

	1999 \$	1998 \$
<b>Cash provided by (used in) operating activities</b>		
Loss from continuing operations	(250,091)	(227,814)
Items not affecting cash		
Amortization of capital assets	320,221	282,165
Amortization of goodwill	80,668	54,306
Changes in non-cash working capital items	938,043	(419,378)
	<u>1,088,841</u>	<u>(310,721)</u>
<b>Cash provided by (used in) financing activities</b>		
Proceeds on issue of common shares – net	629,396	10,922
Proceeds on sale of treasury stock	213,900	–
Proceeds on issue of Special Warrants	21,375,500	–
Long-term debt – net of repayments	(166,475)	(191,904)
Due to related parties	–	(195,175)
	<u>22,052,321</u>	<u>(376,157)</u>
<b>Cash provided by (used in) investing activities</b>		
Purchase of marketable securities	(18,600,000)	
Acquisition of capital assets – net	(270,738)	(40,107)
Acquisition of subsidiaries	(2,151,982)	(817,500)
Bank indebtedness assumed		(1,963,861)
	<u>(21,022,720)</u>	<u>(2,821,468)</u>
<b>Increase (decrease) in cash attributable to continuing operations</b>	2,118,442	(3,508,346)
<b>Increase (decrease) in cash attributable to discontinued software and hardware operations</b>	58,186	75,500
	<u>2,176,628</u>	<u>(3,432,846)</u>
<b>Cash (bank indebtedness) from continuing operations – beginning of year</b>	<u>(1,354,554)</u>	<u>2,222,386</u>
<b>Cash (bank indebtedness) from continuing operations – End of year</b>	<u>822,074</u>	<u>(1,210,460)</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, the PPL Group of Companies (the PPL Group) (note 2(a)) and Software Guaranty Inc. (note 2(b)).

### **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 Acquisitions**

### **a) Acquisition of 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>(411,608)</u>
Goodwill at May 31, 1999	<u>6,191,371</u>

**b) Acquisition of Software Guaranty Inc.**

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>
Goodwill arising on acquisition	2,200,407
Amortization	<u>(36,279)</u>
Goodwill at May 31, 1999	<u>2,164,128</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>
	\$	\$
Software revenue	-	561,834
Cost of sales and operating expenses	(54,237)	363,098
Recovery (loss) before other item	54,237	198,736
Royalty income	25,763	136,264
Recovery from discontinued software development/ publishing and hardware distribution operations	80,000	335,000

Summary of liabilities:

	<b>1999</b>	<b>1998</b>
	\$	\$
Liabilities		
Accounts payable – trade	56,231	210,565
Accrued liabilities	71,815	613,935
Total liabilities attributed to discontinued operations	128,046	824,500

**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. ( note 8(a))

**4 Loans to officers**

	<b>1999</b>	<b>1998</b>
	<b>\$</b>	<b>\$</b>
Non-interest bearing loans	Nil	1,580,668
	<u>Nil</u>	<u>1,580,668</u>

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 totalled \$nil at May 31, 1999 (1998 – \$1,580,668) and were secured by nil common shares (1998 – 986,667) 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. Subsequent loan repayments have resulted in a corresponding increase in share capital.

## 5 Capital assets

	1999 \$	1998 \$
Cost		
Computer equipment and software	6,335,949	5,567,327
Duplication and packaging equipment	1,097,320	1,226,944
Furniture, automotive and office equipment	1,347,119	1,274,334
Building	176,851	-
Leasehold improvements	1,128,331	1,071,500
	<hr/> 10,085,570	<hr/> 9,140,105
Less: Accumulated amortization		
Computer equipment and software	4,025,350	3,044,445
Duplication and packaging equipment	813,840	846,116
Furniture, automotive and office equipment	828,569	681,150
Building	34,781	-
Leasehold improvements	1,015,060	680,324
	<hr/> 6,717,600	<hr/> 5,252,035
	<hr/> <hr/> 3,367,970	<hr/> <hr/> 3,888,070

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 \$2,382,718 (1998 – \$2,090,572).

## 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 \$217,898 at May 31, 1999 (1998 – \$427,299). 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	268,791	44,741	313,532
2002			
Total payments due	718,791	335,969	1,054,760
Less: Imputed interest	52,250		
	666,541	335,969	1,002,510
Less: Current portion	403,427	291,228	694,655
May 31, 1999	263,114	44,741	307,855
May 31, 1998	666,541	313,783	980,324

- 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 \$118,071 (1998 – \$169,000), which bears interest at 7.25%.

## 8 Capital stock

### Authorized

Unlimited number of common shares  
Unlimited number of preference shares

### Issued capital

	<b>1999 \$</b>	<b>1998 \$</b>
27,345,219 (1998 – 17,580,466) common shares	34,095,748	27,301,737
5,991,739 (1998 – nil) special warrants	21,375,500	–
	<u>55,471,248</u>	<u>27,301,737</u>

a) **Common shares**

	<b>Number of shares</b>	<b>Amount \$</b>
<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 (note 4)	333,334	1,050,002
Issued for cash under stock option arrangements	9,665	10,922
	<hr/>	
<b>Balance – May 31, 1998</b>	17,580,466	27,301,737
Issued to senior officers for non-interest bearing loans – net of severance arrangements (note 4)	166,666	(395,834)
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	452,667	463,899
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
	<hr/>	
<b>Balance – February 28, 1999</b>	20,005,296	28,695,852
Issued on conversion of special warrants (note 8(b))	4,000,000	1,695,000
Issued on conversion of purchase warrants	1,750,000	910,000
Conversion of note payable	358,823	250,000
Issued on acquisition of Software Guaranty Inc ( note 2 )	674,207	876,000
Conversion of warrants – Broker	300,000	464,000
Conversion of options to Service providers	300,000	1,080,000
Cancellation of options	(333,334)	(1,050,002)
Issued on conversion of Employee Stock Option Plan	280,227	1,174,898
Sale of shares received in satisfaction of note receivable arising on the sale of Microforum Italia s.r.l. ( note 3(b))	100,000	–
	<hr/>	
<b>Balance – May 31, 1999</b>	<u>27,435,219</u>	<u>34,095,748</u>

**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.

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. A receipt for a (final) prospectus of the Company qualifying the distribution of the common shares was issued by the Ontario Securities Commission on June 25, 1999.

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. A receipt for a (final) prospectus of the Company qualifying the distribution of the common shares and common share purchase warrants was issued on June 30, 1999.

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

Basic earnings (loss) per share are calculated using a weighted average number of outstanding shares of approximately 21,970,950 (1998 – 16,746,000). 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 an aggregate of 2,265,965 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 granted the following options, which are outstanding at May 31, 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	120,000	0.52	December 2, 2000
Service provider	150,000	0.85	November 30, 2000
Compensation options	202,422	1.38	March 8, 2001
Compensation options	310,000	6.50	November 10, 2000
Compensation options	155,000	10.00	September 10, 2000

**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:

	<b>\$</b>
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. The Company's continuing operations are in three distinct segments as reported below.

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>May 31, 1999</b>				
	<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	4,701,630	2,213,864	3,038,011	(246,024)	9,707,481
Operating and other expenses	4,733,106	2,304,285	3,166,305	(246,024)	9,957,671
Loss from continuing operations	(31,476)	(90,421)	(128,294)	0	(250,191)
Identifiable assets from continuing operations	9,919,776	2,957,514	41,115,043	(9,583,531)	44,408,802

	<b>May 31, 1998</b>				
	<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	3,682,071	1,300,158	1,245,690	(30,071)	6,197,848
Operating and other expenses	3,740,697	1,318,588	1,396,448	(30,071)	6,425,662
Loss from continuing operations	(58,626)	(18,430)	(150,758)	0	(227,814)
Identifiable assets from continuing operations	6,470,643	1,637,124	13,831,046	(2,647,181)	19,291,632

The Company's predominant geographic segment is Canada.

## 12 Economic dependence

For the period ended May 31, 1999, the Company earned a significant portion of its marketing, program and distribution revenue from three (1998 – three) customers. As at May 31, 1999, approximately 54% (1998 – 55%) of the accounts receivable balance and 59% of revenues for the period then ended were derived from these customers.

## 13 Related party transactions

Amounts due from/to related parties are detailed as follows as at May 31, 1999:

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

Amounts due to the shareholder in (c) are non-interest bearing and due on demand except for \$252,500 (note 2) which matures March 31, 2000.

## 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.