

Microforum Inc.

Interim Consolidated Financial Statements
November 30, 1999 and 1998

Microforum Inc.
Interim Consolidated Balance Sheets
As at November 30, 1999 and 1998

	1999	1998
	\$	\$
Assets		
Current assets		
Marketable Securities	18,110,662	–
Accounts receivable	12,126,481	4,843,985
Work-in-progress	3,714,006	987,801
Assets of discontinued software and hardware operations (note 3(a))	–	150,000
Current portion of note receivable on sale of Microforum Italia s.r.l. (note 3(b))	100,000	100,000
Prepaid expenses and other assets	481,906	329,053
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	34,533,055	6,410,839
Capital assets (note 5)	3,694,583	3,247,389
Investment in Quartet Service Corporation	300,000	–
Goodwill (note 2)	14,946,029	6,346,071
Due from related parties (note 13)	519,124	519,124
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	53,992,791	16,523,423
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	539,307	1,284,804
Accounts payable and accrued liabilities	8,287,366	6,751,469
Accrued acquisition costs (note 2)	6,838,000	–
Deferred revenue	104,026	313,954
Liabilities of discontinued software and hardware operations (note 3(a))	31,714	559,821
Due to shareholder (note 13)	252,500	45,798
Current portion of long-term debt (note 7)	674,712	696,017
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	16,727,625	9,651,863
Long-term debt (note 7)	–	625,706
Due to shareholder (note 13)	419,124	771,624
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	17,146,749	11,049,193
Shareholders' Equity		
Capital stock (note 8)	56,967,540	27,363,987
Contributed Surplus	113,900	–
Loans to officers (note 4)	–	(1,364,002)
Deficit	(20,235,398)	(20,525,755)
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	36,846,042	5,474,230
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	53,992,791	16,523,423

Microforum Inc.

Interim Consolidated Statements of Operations and Deficit For the nine months ended November 30, 1999 and 1998

	1999	1998
	\$	\$
Sales (note 11)	33,677,860	22,374,449
Cost of sales	20,950,223	14,978,711
Gross profit	12,727,637	7,395,738
Operating expenses		
General and administration	8,513,889	6,393,080
Sales and marketing	2,579,486	2,238,967
Interest on long-term debt	67,879	129,995
	11,161,254	8,762,042
Income (loss) from continuing operations, before undernoted items	1,566,383	(1,366,304)
Amortization	(1,895,815)	(1,201,286)
Loss from continuing operations	(329,432)	(2,567,590)
Recovery from discontinued software and hardware operations (note 3(a))	80,000	648,000
Cost of shares issued on renegotiation of acquisition of PPL Marketing Services Inc. (note 4)	-	(1,104,000)
Provision for writedown of shares pledged for loans to officers (note 4)	-	(366,667)
Net loss for the period	(249,432)	(3,390,257)
Deficit – beginning of period	(19,985,966)	(17,135,498)
Deficit – end of period	(20,235,398)	(20,525,755)
Basic earnings (loss) per share (note 8(b))		
From continuing operations	(0.01)	(0.24)
From discontinued operations and discontinued subsidiary	-	0.04
	(0.01)	(0.20)

Microforum Inc.

Interim Consolidated Statements of Cash Flows

For the nine months ended November 30, 1999 and 1998

	1999 \$	1998 \$
Cash provided by (used in):		
Operating activities		
Loss from continuing operations	(329,432)	(4,038,257)
Items not affecting cash		
Amortization of capital assets	779,816	984,062
Amortization of goodwill	1,115,999	217,224
Provision for shares issued on renegotiation of acquisition of PPL Marketing Services Inc.	-	1,104,000
Provision for write-down of shares pledged for loans to officers	-	366,667
Changes in non-cash working capital items	(3,806,887)	2,699,903
	<u>(2,240,504)</u>	<u>1,333,599</u>
Financing activities		
Proceeds on issue of common shares – net	1,423,475	1,060,924
Proceeds on sale of treasury stock	213,900	-
Proceeds on issue of Special Warrants	23,606,996	-
Long-term debt – net of repayments	(594,273)	(584,952)
Shares issued as director compensation	10,217	12,250
Due to related parties	-	(316,145)
Proceeds from officer loan repayment	512,167	(1,150,003)
	<u>25,172,482</u>	<u>(977,926)</u>
Investing activities		
Purchase of marketable securities	(18,110,662)	-
Acquisition of capital assets – net	(478,081)	(101,323)
Acquisition of subsidiaries	(3,189,842)	(3,885,361)
Acquisition of interest in Quartet Service Corporation	(300,000)	-
	<u>(22,078,585)</u>	<u>(3,986,684)</u>
Increase (decrease) in cash attributable to continuing operations	853,393	(3,631,011)
Increase (decrease) in cash attributable to discontinued software and hardware operations	(38,146)	123,821
	<u>815,247</u>	<u>(3,507,190)</u>
Cash (bank indebtedness), beginning of year	<u>(1,354,554)</u>	<u>2,222,386</u>
Bank indebtedness, end of period	<u>(539,307)</u>	<u>(1,284,804)</u>

Microforum Inc.

Notes to Interim Consolidated Financial Statements
November 30, 1999 and 1998

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)), Software Guaranty Inc. (note 2(b)), Q-Inter Applications Inc. (note 2(c)), Two Door Communications Inc.(note 2(d)) and Frameworks Inc. (note (2(e)).

Work-in-progress

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

Microforum Inc.

Notes to Interim Consolidated Financial Statements November 30, 1999 and 1998

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 3 to 20 years. The Company evaluates the carrying value and amortization period of goodwill on an ongoing basis. In order to determine if a 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. During the period, the Company revised the original amortization period from 20 to 10 years for goodwill arising in the PPL Group acquisition and 3 years for all other acquisitions.

Income taxes

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

Financial instruments

The carrying amounts reported in the balance sheets for marketable securities, accounts receivable, notes receivable, due from related parties, bank indebtedness, accounts payable and accrued liabilities and due to shareholder 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

See Schedule, next page

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.

As a result of renegotiation of the terms of the original agreement to acquire the shares of PPL Marketing Services Inc., the Company has issued 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 1,500,000 common shares issued of approximately \$1,104,000 has been accrued and charged to income at November 30, 1998.

Microforum Inc.

Notes to Interim Consolidated Financial Statements
November 30, 1999 and 1998

2. Acquisitions	a) PPL Group	b) Software Guaranty	c) Q-Inter Applications	d) Two Door Communications	e) Frameworks	Total
Value of shares issued	5,695,000	876,000	560,000	1,000,000	2,000,000	10,131,000
Cash paid on closing	502,500	2,250,000	750,000	1,000,000	2,750,000	7,252,500
Promissory note	502,500	-	-	-	-	502,500
Purchase price	6,700,000	3,126,000	1,310,000	2,000,000	4,750,000	17,886,000
Expenses attributable to acquisition	354,683	62,629	105,000	48,000	40,000	610,312
Total costs of acquisition	<u>7,054,683</u>	<u>3,188,629</u>	<u>1,415,000</u>	<u>2,048,000</u>	<u>4,790,000</u>	<u>18,496,312</u>
Net assets acquired						
Cash and equivalents	-	14,068	-	160,843	-	174,911
Current assets	5,345,974	1,634,932	437,270	888,474	672,627	8,979,277
Capital and other assets	1,456,690	297,000	274,360	26,753	277,674	2,332,477
Goodwill	6,602,979	2,225,536	1,161,188	1,824,870	4,577,604	16,392,177
	13,405,643	4,171,536	1,872,818	2,900,940	5,527,905	27,878,842
Bank indebtedness	(2,781,361)	(135,518)	-	-	(61,606)	(2,978,485)
Liabilities assumed	3,609,282)	(847,389)	(457,818)	(852,940)	(676,299)	(6,443,728)
Net assets	<u>7,015,000</u>	<u>3,188,629</u>	<u>1,415,000</u>	<u>2,048,000</u>	<u>4,790,000</u>	<u>18,456,629</u>
Goodwill arising on acquisition	6,602,979	2,225,536	1,161,188	1,824,870	4,577,604	16,392,177
Amortization	<u>(672,770)</u>	<u>(299,949)</u>	<u>(117,735)</u>	<u>(101,382)</u>	<u>(254,312)</u>	<u>(1,446,148)</u>
Goodwill at November 30, 1999	<u>5,930,209</u>	<u>1,925,587</u>	<u>1,043,453</u>	<u>1,723,488</u>	<u>4,323,292</u>	<u>14,946,029</u>
Goodwill at November 30, 1998	<u>6,346,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,346,071</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 issue of 674,207 common shares of the Company.

c) Acquisition of Q-Inter Applications Inc.

Effective June 1, 1999, the Company acquired all the issued and outstanding common shares of Q-Inter Applications Inc. The purchase price for the transaction, was \$1,310,000, of which \$750,000 was paid by way of cash and \$560,000 was paid by way of issue of 86,153 common shares of the Company.

d) Acquisition of Two Door Communications Inc.

Effective October 1, 1999, the Company acquired all the issued and outstanding common shares of 2 Door Communications Inc. The purchase price for the transaction, was \$2,000,000 of which \$1,000,000 was paid by way of cash and \$1,000,000 was paid by way of issue of 150,829 common shares of the Company. As additional consideration, the Company has agreed to pay \$1.053 for each \$1.00 of pre-tax profit earned by Two Door Communications Inc. for the twelve month period ending September 30, 2000, up to a maximum of \$1,000,000. Any such additional consideration shall be in the form of common shares and shall be accounted for as goodwill.

e) Acquisition of Frameworks Inc.

Effective October 1, 1999, the Company acquired all the issued and outstanding common shares of Frameworks Inc. The purchase price for the transaction, was \$4,750,000 of which \$2,750,000 was paid by way of cash and \$2,000,000 was paid by way of issue of 301,659 common shares of the Company.

3 Discontinued operations and disposals

a) Discontinued software development/publishing and hardware distribution operations

The Company discontinued wholesale distribution of hardware equipment during fiscal 1998. The Company ceased its internal development of software products on June 30, 1997 and announced on May 14, 1998 (the measurement date) that it would discontinue all software publishing activities.

Selected financial information:

	1999	1998
	\$	\$
Software revenue	–	836,102
Cost of sales and operating expenses	(54,237)	378,916
Recovery before other item	54,237	457,186
Royalty income	25,763	190,814
Recovery from discontinued software development/ publishing and hardware distribution operations	80,000	648,000

	1999	1998
	\$	\$
Assets		
Accounts and sundry receivable, net of allowances	–	150,000
Total assets attributed to discontinued operations	–	150,000
Liabilities		
Accounts payable – trade	–	95,821
Accrued liabilities	31,714	464,000
Total liabilities attributed to discontinued operations	31,714	559,821

b) Sale of Microforum Italia s.r.l.

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 \$213,900 (note 8(a)). Subsequent to the period, the Company received final settlement from the purchasers of approximately \$305,000.

4 Loans to officers

	1999	1998
	\$	\$
Non-interest bearing loans	-	1,730,669
Allowance for impairment in share value at valuation date	-	(366,667)
Reduction in shareholders' equity	-	(1,364,002)
	<u>Nil</u>	<u>Nil</u>

In accordance with the terms of arrangements approved by the Company's shareholders on 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 November 30, 1999 (1998 – \$nil) and were secured by nil common shares (1998 – nil) 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. In fiscal 1999, 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	7,435,430	5,724,900
Duplication and packaging equipment	1,097,320	1,217,210
Furniture, automotive and office equipment	1,554,643	1,260,467
Leasehold improvements	1,201,906	1,085,555
	<u>11,289,299</u>	<u>9,288,132</u>
Less: Accumulated amortization		
Computer equipment and software	4,732,462	3,450,500
Duplication and packaging equipment	854,526	889,523
Furniture, automotive and office equipment	940,400	732,401
Leasehold improvements	1,067,328	968,319
	<u>7,594,716</u>	<u>6,040,743</u>
	<u>3,694,583</u>	<u>3,247,389</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 \$2,528,791 (1998 – \$2,236,645).

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 \$124,603 at November 30, 1999 (1998 – \$321,474). 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.

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:

	Capital leases \$	Bank Loans \$	Total \$
2000	450,000	224,603	674,603
2001	30,611	-	30,611
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Total payments due	480,611	224,603	705,214
Less: Imputed interest	30,502	-	30,502
	<hr/>		
	450,109	224,603	674,712
Less: Current portion	450,109	224,603	674,712
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November 30, 1999	-	-	-
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November 30, 1998	464,867	160,839	625,706
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- a) Capital lease obligations bear interest at an average 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 6), included in bank loans is \$115,000 (1998 – \$148,000), which bears interest at 7.25%, remaining amounts bear interest at prime plus 1%.

8 Capital stock

Authorized

Unlimited number of common shares
 Unlimited number of preference shares

Issued capital

	1999	1998
	\$	\$
33,946,924 (1998 – 17,733,966) common shares	56,967,540	27,363,987
	<u>56,967,540</u>	<u>27,363,987</u>

a) Common shares

	Number of shares	Amount \$
Balance – February 28, 1998	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
Balance – May 31, 1998 & August 31, 1998	17,580,466	27,301,737
Issued to directors for services rendered	3,500	12,250
Received in satisfaction of note receivable arising on sale of Microforum Italia s.r.l. (note 3(b))	(100,000)	(100,000)
Issued to senior officers for non-interest bearing loans (note 4)	250,000	150,000
Balance – November 30, 1998	17,733,996	27,363,987
Issued to senior officers for non-interest bearing loans – net of severance arrangements (note 4)	(83,364)	(545,834)
Issued for cash under stock option arrangements	452,667	463,899
Issued to directors for services rendered	3,500	9,800
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

Balance – February 28, 1999	20,005,296	28,695,852
Issued on conversion of special warrants (note 8(b))	4,000,000	1,660,000
Issued on conversion of purchase warrants	1,850,000	962,000
Issued on acquisition of Software Guaranty Inc. (note 2(b))	674,207	876,000
Conversion of warrants – Broker	200,000	104,000
Conversion of options to Service providers	200,000	720,000
Issued on conversion of Employee Stock Option Plan	405,716	1,197,384
Sale of shares received in satisfaction of note receivable arising on the sale of Microforum Italia s.r.l. (note 3(b))	100,000	100,000
Balance – May 31, 1999	27,435,219	34,315,236
Issued on acquisition of Q-Inter Applications Inc. (note 2(c))	86,153	560,000
Conversion of warrants – Broker	242,293	301,364
Conversion of options to Service providers	150,000	127,500
Issued on conversion of purchase warrants	2,891,739	3,057,717
Issued on conversion of purchase warrants	3,100,000	18,369,415
Issued on conversion of Employee Stock Option Plan	41,520	54,362
Balance – August 31, 1999	33,946,924	56,785,594
Issued on conversion of Employee Stock Option Plan	42,778	171,729
Issued to directors for services rendered	4,348	10,217
Balance – November 30, 1999	33,994,050	56,967,540

b) Basic earnings (loss) per share

Basic earnings (loss) per share are calculated using a weighted average number of outstanding shares of approximately 30,083,154 (1998 – 17,325,088). Fully diluted earnings per share data are not presented as they are anti-dilutive.

c) 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 2,814,564 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 November 30, 1999:

	Number of options	Exercise price \$	Expiry date
Compensation options	120,000	0.52	December 2, 2000
Compensation options	60,129	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:

	\$
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 communications organization.

Areas of expertise include e-commerce and related software development, Web design, 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.

	November 30, 1999				
	Strategic marketing \$	Advertising and public relations \$	Internet and multimedia services \$	Eliminations \$	Total \$
Sales	15,939,479	8,206,241	10,685,117	(1,152,977)	33,677,860
Operating and other expenses	15,991,253	8,543,997	10,625,019	(1,152,977)	34,007,292
Income (loss) from continuing operations	(51,774)	(337,736)	60,098	-	(329,432)
Identifiable assets from continuing operations	12,488,434	2,910,093	53,646,661	(15,052,397)	53,992,791

	November 30, 1998				
	Strategic marketing \$	Advertising and public relations \$	Internet and multimedia services \$	Eliminations \$	Total \$
Sales	12,919,792	6,099,434	3,467,922	(112,699)	22,374,449
Operating and other expenses	14,295,073	6,358,311	5,872,021	(112,699)	26,412,706
Loss from continuing operations	(1,375,281)	(258,877)	(2,404,099)	-	(4,038,257)
Identifiable assets from continuing operations	5,423,610	2,359,465	15,795,031	(7,054,683)	16,523,423

The Company's predominant geographic segment is Canada.

12 Economic dependence

For the period ended November 30, 1999, the Company earned a significant portion of its marketing, program and distribution revenue from three (1998 – three) customers. As at November 30, 1999, approximately 51% (1998 – 48%) 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 November 30:

	1999	1998
	\$	\$
Due from related parties		
Due from Elliot & Andrews Studios Inc. (a)	370,000	370,000
Due from Tribco Communications Group Inc. (b)	<u>149,124</u>	<u>149,124</u>
	<u>519,124</u>	<u>519,124</u>
Due to related party		
Due to shareholder (c)	671,624	817,422
Less: current portion of amount due to shareholder	<u>252,500</u>	<u>45,798</u>
	<u>419,124</u>	<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.