

Unaudited Interim Consolidated Financial Statements of

**MICROFORUM INC.**

Three months ended, May 31, 2000 and 1999

# MICROFORUM INC.

Consolidated Balance Sheets

(Unaudited)

As at May 31

	2000	1999
<b>Assets</b>		
Current assets:		
Cash	\$ –	\$ 822,074
Marketable securities	47,675,928	18,600,000
Accounts receivable	19,985,426	10,077,288
Work in progress	1,036,593	2,007,559
Note receivable on sale of Microforum Italia s.r.l. (note 3(b))	–	100,000
Prepaid expenses and other assets	1,159,493	559,288
	<u>69,857,440</u>	<u>32,166,209</u>
Capital assets (note 4)	4,200,734	3,367,970
Investments	450,000	–
Intellectual property (note 2(a)(ii))	3,058,870	–
Goodwill (note 5)	19,464,821	8,355,499
Due from related parties (note 14)	–	519,124
	<u>\$ 97,031,865</u>	<u>\$ 44,408,802</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Bank indebtedness (note 6)	\$ 2,320,911	\$ –
Accounts payable and accrued liabilities	9,203,793	6,109,859
Deferred revenue	1,316,326	1,479,839
Liabilities of discontinued software and hardware operations (note 3(a))	–	128,046
Due to shareholder (note 14)	–	252,500
Current portion of long-term debt (note 7)	319,578	694,655
	<u>13,160,608</u>	<u>8,664,899</u>
Long-term debt (note 7)	–	307,855
Due to shareholder (note 14)	–	519,124
Shareholders' equity:		
Capital stock (note 8)	108,358,596	54,959,081
Contributed Surplus	–	113,900
Deficit	(24,487,339)	(20,156,057)
	<u>83,871,257</u>	<u>34,916,924</u>
	<u>\$ 97,031,865</u>	<u>\$ 44,408,802</u>

Commitments (note 11)

Subsequent event (note 15)

See accompanying notes to consolidated financial statements.

# MICROFORUM INC.

Consolidated Statements of Operations and Deficit  
(Unaudited)  
Three months ended May 31

	2000	1999
Sales (note 12)	\$ 15,650,440	\$ 9,707,481
Cost of sales	9,450,194	6,275,614
Gross profit	6,200,246	3,431,867
Operating expenses (income):		
General and administration	5,052,708	2,568,257
Sales and marketing	1,623,619	686,234
Interest on long-term debt	32,589	26,678
Investment income	(638,999)	—
	6,069,917	3,281,169
Income (loss) from continuing operations before amortization of capital assets and goodwill and income taxes	130,329	150,698
Amortization of capital assets	342,465	320,221
Loss from continuing operations before income taxes and amortization of goodwill	(212,136)	(169,523)
Income taxes	40,000	—
Loss from continuing operations before amortization of goodwill	(252,136)	(169,523)
Amortization of goodwill	1,347,261	80,668
Loss from continuing operations	(1,599,397)	(250,191)
Recovery from discontinued software and hardware operations (note 3(a))	—	80,000
Loss for the period	(1,599,397)	(170,191)
Deficit, beginning of period	(22,887,942)	(19,985,866)
Deficit, end of period	\$ (24,487,339)	\$ (20,156,057)
Basic loss per share (note 8(b)):		
From continuing operations	\$ (0.04)	\$ (0.01)

See accompanying notes to consolidated financial statements.

# MICROFORUM INC.

Consolidated Statements of Cash Flows  
(Unaudited)  
Three months ended May 31

	2000	1999
Cash provided by (used in):		
Operating activities:		
Loss from continuing operations	\$ (1,599,397)	\$ (250,191)
Items not affecting cash:		
Amortization of capital assets	342,465	320,221
Amortization of goodwill	1,347,261	80,668
Change in non-cash operating working capital	(4,211,317)	938,143
	(4,120,988)	1,088,841
Financing activities:		
Proceeds on issue of common shares, net	13,016	629,396
Proceeds on conversion of broker warrants	433,071	-
Proceeds on sale of treasury stock (note 3(b))	-	213,900
Proceeds on issue of special warrants	-	21,375,500
Long-term debt, net of repayments	(328,130)	(166,475)
Decrease in due to shareholder	(252,500)	-
	(134,543)	22,052,321
Investing activities:		
Purchase (sale) of marketable securities	2,861,001	(18,600,000)
Acquisition of capital assets, net	(639,074)	(270,738)
Purchase of intellectual property	(786,360)	-
Acquisition of subsidiary	(1,198,400)	(2,151,982)
Increase in investments	(150,000)	-
	87,167	(21,022,720)
Increase (decrease) in cash attributable to continuing operations	(4,168,364)	2,118,442
Increase in cash attributable to discontinued software and hardware operations	-	58,186
Increase (decrease) in cash	(4,168,364)	2,176,628
Cash (bank indebtedness), beginning of year	1,847,453	(1,354,554)
Cash (bank indebtedness), end of year	\$ (2,320,911)	\$ 822,074

See accompanying notes to consolidated financial statements.

# MICROFORUM INC.

Consolidated Statements of Cash Flows (continued)  
(Unaudited)  
Three months ended May 31

	2000	1999
Supplemental cash flow information:		
Interest paid	\$ 78,844	\$ 83,155
Supplemental disclosure of non-cash investing and financing activities:		
Common shares issued in connection with acquisition of subsidiaries	250,000	876,000
Common shares issued in connection with acquisition of intellectual property	2,230,085	-

See accompanying notes to consolidated financial statements.

# MICROFORUM INC.

Notes to Consolidated to Financial Statements  
(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

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## 1. Significant accounting policies:

### (a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, Internet Frontier Inc., the PPL Group of Companies (the "PPL Group"), Two Door Communications Inc., Frameworks Communications Inc., Relational Solutions Inc. and Icom Alliance Incorporated.

### (b) Work in progress inventory:

Work in progress inventory is recorded at cost, which comprises billable labour production and creative material costs for ongoing projects.

### (c) Capital assets:

Capital assets are recorded at cost. Amortization is provided using the following bases and rates:

Assets	Basis	Rate
Computer equipment and software	Declining balance	20 - 30%
Duplication and packaging equipment	Declining balance	20 - 30%
Furniture, automotive and office equipment	Declining balance	20 - 30%
Leasehold improvements	Straight line	Over term of lease

### (d) Intellectual property:

Intellectual property represents assets acquired from Flashcast Communications, Corp. These assets will be amortized on a straight line basis over 3 years.

### (e) 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.

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

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## 1. Significant accounting policies (continued):

### (f) Foreign currency translation:

Monetary assets and liabilities are translated at period-end exchange rates. Revenue 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.

### (g) Goodwill:

The excess of the purchase price over the fair values of net assets acquired is recorded as goodwill and is amortized on a straight-line basis over three to 20 years. The Company evaluates the carrying values 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 values on an undiscounted basis. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment is determined.

### (h) Income taxes:

The Company accounts for income taxes using the asset and liability method. Future income taxes are measured using income tax rates expected to apply to taxable income in years in which the temporary differences are expected to be recovered or settled. The effect of changes in tax rates are recognized in income in the period they are enacted.

### (i) Financial instruments:

#### Fair values:

The carrying amounts reported in the balance sheets of cash, marketable securities, accounts 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 values for capital leases and term loans approximates fair values 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 values because they bear interest at variable rates.

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

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## 1. Significant accounting policies (continued):

Credit risk:

The Company's investment in marketable securities is subject to credit risk, which is minimized as a result of the Company investing in high quality short-term interest bearing securities.

### (j) Stock-based compensation plan:

The Company has a stock option plan, which is described in note 10. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to capital stock.

### (k) 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 revenue 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.

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

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## 2. Acquisitions:

(a) Acquisitions during 2001 were as follows:

(i) Acquisition of Icom Alliance Incorporated:

Effective May 1, 2000, the Company acquired all the issued and outstanding common shares of Icom Alliance Incorporated. The purchase price for the transaction was \$1,000,000 exclusive of expenses relating to the acquisition of \$65,000, of which \$750,000 was paid by way of cash and \$250,000 was paid by way of issue of 39,671 common shares of the Company. As additional consideration, the Company has agreed to pay up to \$2,500,000 upon the achievement of certain employment levels as stipulated in the purchase agreement. Any such additional consideration shall be in the form of common shares and shall be accounted for as goodwill.

(ii) Acquisition of Flashcast Communications, Corp.:

Effective May 11, 2000, the Company acquired substantially all of the productive assets of Flashcast Communications, Corp. The purchase price for the transaction was US\$2,000,000 exclusive of expenses relating to the acquisition of \$43,000, of which US\$500,000 was paid by way of cash and US\$1,500,000 was paid by way of issue of 342,563 common shares of the Company.

Net assets acquired for each of the above acquisitions was as follows:

	Icom Alliance Incorporated	Flashcast Communications, Corp.
Current assets	\$ 430,440	\$ -
Capital assets	26,627	-
Intellectual property	-	3,058,870
Goodwill	1,383,400	-
	<hr/> 1,840,467	<hr/> 3,058,870
Bank indebtedness	(69,456)	-
Liabilities assumed	(706,011)	-
	<hr/> \$ 1,065,000	<hr/> \$ 3,058,870

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

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## 2. Acquisitions (continued):

(b) Acquisition during 2000 was as follows:

(i) 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 was \$3,126,000 exclusive of expenses relating to the acquisition of \$62,629 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. Effective February 21, 2000, 14,228 shares at a unit cost of \$1.30 were cancelled, reflecting the settlement of the final purchase price.

The fair value of the net assets acquired was:

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Cash and cash equivalents	\$	135,518
Current assets		1,476,696
Capital and other assets		296,922
Goodwill		2,434,040
		<hr/>
		4,343,176
Liabilities assumed		(946,043)
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Net assets	\$	3,397,133

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## 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.

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

### 3. Discontinued operations and disposals (continued):

Selected financial information:

	2000	1999
Software revenue	\$ –	\$ –
Cost of sales and operating income	–	(54,237)
Recovery before royalty income	–	54,237
Royalty income	–	25,763
Income from discontinued software development/publishing and hardware distribution operations	\$ –	\$ 80,000
Liabilities:		
Accounts payable	\$ –	\$ 56,231
Accrued liabilities	–	71,815
Total liabilities attributed to discontinued operations	\$ –	\$ 128,046

#### (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 9(a)). On January 10, 2000, the Company received final settlement from the purchasers in the amount of \$305,792, resulting in a gain of \$205,792.

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

## 4. Capital assets:

2000	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 8,072,701	\$ 4,898,140	\$ 3,174,561
Duplication and packaging equipment	1,439,127	1,172,788	266,339
Furniture, automotive and office equipment	1,639,103	1,058,790	580,313
Leasehold improvements	1,248,753	1,069,232	179,521
	<u>\$ 12,399,684</u>	<u>\$ 8,198,950</u>	<u>\$ 4,200,734</u>

1999	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 6,335,949	\$ 4,025,350	\$ 2,310,599
Duplication and packaging equipment	1,097,320	813,840	283,480
Furniture, automotive and office equipment	1,347,119	828,569	518,550
Building	176,851	34,781	142,070
Leasehold improvements	1,128,331	1,015,060	113,271
	<u>\$ 10,085,570</u>	<u>\$ 6,717,600</u>	<u>\$ 3,367,970</u>

Included in the above capital assets are assets under capital lease with a cost of \$3,477,010 (1999 - \$3,477,010) and accumulated amortization of \$2,674,864 (1999 - \$2,382,718).

## 5. Goodwill:

	2000	1999
Cost	\$ 23,593,406	\$ 8,803,386
Less accumulated amortization	(4,128,585)	(447,887)
	<u>\$ 19,464,821</u>	<u>\$ 8,355,499</u>

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

## 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 \$64,345 at May 31, 2000 (1999 - \$217,898). 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 8 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:

May 31, 2000	Capital leases	Bank loans	Total
2000	\$ 271,017	\$ 64,345	\$ 335,362
Less imputed interest	15,784	—	15,784
	255,233	64,345	319,578
Less current portion	255,233	64,345	319,578
	\$ —	\$ —	\$ —

May 31, 1999	Capital leases	Bank loans	Total
2000	\$ 450,000	\$ 291,228	\$ 741,228
2000	268,791	44,741	313,532
	718,791	335,969	1,054,760
Less imputed interest	52,250	—	52,250
	666,541	335,969	1,002,510
Less current portion	403,427	291,228	694,655
	\$ 263,114	\$ 44,741	\$ 307,855

(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.

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)  
Three months ended May 31, 2000 and May 31, 1999

## 7. Long-term debt (continued):

(b) In addition to the non-revolving loans (note 6), included in bank loans is \$100,000 (1999 - \$118,071), which bears interest at 7.25%, remaining amounts bear interest at prime plus 1%.

## 8. Capital stock:

	2000	1999
Authorized:		
Unlimited preference shares		
Unlimited common shares		
Issued:		
40,237,075 common shares (1999 – 27,345,219)	\$ 108,358,596	\$ 33,583,581
nil special warrants (1999 – 5,991,739)	–	21,375,500
	\$ 108,358,596	\$ 54,959,081

(a) Common shares:

	Number of shares	Amount
Balance, February 28, 1999	20,005,296	\$ 28,695,852
Issued on conversion of special warrants	4,000,000	1,660,000
Issued on conversion of purchase warrants	7,841,739	22,389,132
Issued on acquisition of Software Guaranty Inc., net of price adjustment	659,979	857,504
Conversion of warrants - broker	947,793	1,952,764
Conversion of options to service providers	450,000	1,207,500
Issued for cash under stock option arrangements	451,696	1,203,777
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
Issued on acquisition of Q-Inter Applications Inc.	86,153	560,000
Issued on acquisition of Two Door Communications Inc.	150,830	1,000,000
Issued on acquisition of Frameworks Communications Inc.	301,659	2,000,000
Issued on acquisition of Relational Solutions Inc.	465,426	3,500,004
Issued to directors for services rendered	8,696	20,435
Redemption of shares in consideration of amounts due from related parties	(44,370)	(92,733)
Balance, February 29, 2000	35,424,897	65,054,235
Conversion of warrants - broker	91,211	433,071
Issued for cash under stock option arrangements	4,333	13,016
Issued on conversion of special warrants	4,334,400	40,378,189
Issued on acquisition of Icom Alliance Incorporated (note 2)	39,671	250,000
Issued on acquisition of Flashcast Communications, Corp. (note 2)	342,563	2,230,085

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)  
Three months ended May 31, 2000 and May 31, 1999

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Balance, May 31, 2000	40,237,075	\$ 108,358,596
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# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

## 8. Capital stock (continued):

(b) Basic loss per share:

Basic loss per share are calculated using a weighted average number of outstanding shares of 37,952,733 (1999 – 21,970,950). Fully diluted earnings per share data are not presented, as they are anti-dilutive.

## 9. 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 4,721,888 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.

A summary of the changes in the Company's option plan for the periods ended May 31, 2000 and May 31, 1999 is as follows:

	2000		1999	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance, beginning of period	4,721,888	\$ 5.24	2,539,567	\$ 2.46
Options granted	681,000	4.81	924,900	3.14
Options exercised	(4,333)	(3.00)	(305,716)	(2.74)
Cancelled	–	–	(676,389)	(3.01)
Balance, end of period	5,398,555	\$ 4.59	2,482,362	\$ 2.53
Exercisable, end of period	1,111,012	\$ 2.75	409,211	\$ 3.16

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)  
Three months ended May 31, 2000 and May 31, 1999

## 9. Stock options (continued):

The Company has granted the following options, which are outstanding at May 31, 2000:

	Number of options	Exercise price	Expiry date
Compensation options	33,328	\$ 1.38	March 8, 2001
Compensation options	253,261	6.50	November 10, 2000
Compensation options	155,000	10.00	September 10, 2000

## 10. Income taxes:

Total income tax expense varies from the amount that would be computed by applying the effective income tax rate to the loss before income taxes for the following reasons:

	2000	1999
Effective income tax rate	44.6%	44.6%
Income tax recovery based on the loss before income taxes	\$ (713,000)	\$ (76,000)
Large Corporations Tax	40,000	—
Goodwill amortization	601,000	36,000
Other	72,000	40,000
	\$ —	\$ —

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

## 10. Income taxes (continued):

Significant components of the Company's deferred taxes as of May 31, 2000 and May 31, 1999 are as follows:

	2000	1999
Deferred tax assets:		
Tax loss carry-forwards	\$ 10,371,000	\$ 10,124,000
Property and equipment	175,000	175,000
Deductible financing expenses	555,000	—
	11,101,000	10,299,000
Less valuation allowance	(11,101,000)	(10,299,000)
	\$ —	\$ —

The Company has established valuation allowances equal to the net deferred tax assets due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history and the risk that taxable income may not be generated during the carry-forward periods.

As at May 31, 2000, the Company had approximately \$23,253,000 of unrecognized non-capital tax losses, which may be carried forward to reduce future years' taxable income. These losses expire as follows:

2003	\$ 300,000
2004	8,600,000
2005	9,300,000
2006	4,500,000
2007	553,000
	\$ 23,253,000

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

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## 11. Operating lease commitments:

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

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2001	\$ 2,275,000
2002	2,899,000
2003	2,935,000
2004	2,744,000
2005	2,319,000
Thereafter	7,984,000

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## 12. Segmented information:

In 1999, the Company adopted CICA Section 1701, Segmented Disclosures. The accounting policies of the segments are described in note 1.

The Company is a digital transformation company providing a wide range of e-commerce, creative and database marketing services to recognized North American-based clients.

Areas of expertise include digital consulting, e-commerce application development, systems architecture, supply chain optimization, knowledge management, creative web design, video and digital design, strategic marketing, contest and incentive programs, special event

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

## 12. Segmented information (continued):

management, customer response management, fulfillment and other tactical services, advertising, brand and public relations services. The Company delivers its integrated service offerings through three operating segments as reported below.

2000	e-Business Solutions	Strategic Marketing	Advertising and Public Relations	Eliminations	Total
Sales	\$ 7,673,641	\$ 6,338,490	\$ 3,416,399	\$ (1,778,090)	\$ 15,650,440
Operating and other expenses	7,687,890	7,684,489	3,604,432	(1,726,974)	17,249,837
Loss from continuing operations	\$ (14,249)	\$ (1,345,999)	\$ (188,033)	\$ (51,116)	\$ (1,599,397)
Additions to capital assets	\$ 535,202	\$ 118,515	\$ 11,984	\$ —	\$ 665,701
Additions to goodwill	\$ 1,383,400	\$ —	\$ —	\$ —	\$ 1,383,400
Identifiable assets from continuing operations	\$ 92,588,917	\$ 11,518,807	\$ 5,300,395	\$ (12,376,254)	\$ 97,031,865

1999	e-Business Solutions	Strategic Marketing	Advertising and Public Relations	Eliminations	Total
Sales	\$ 3,038,011	\$ 4,701,630	\$ 2,213,864	\$ (246,024)	\$ 9,707,481
Operating and other expenses	3,166,305	4,733,106	2,304,285	(246,024)	9,957,672
Loss from continuing operations	\$ (128,294)	\$ (31,476)	\$ (90,421)	\$ —	\$ (250,191)
Additions to capital assets	\$ 270,738	\$ —	\$ —	\$ —	\$ 270,738
Additions to goodwill	\$ 2,434,040	\$ —	\$ —	\$ —	\$ 2,434,040
Identifiable assets from continuing operations	\$ 41,115,043	\$ 9,919,776	\$ 2,957,514	\$ (9,583,531)	\$ 44,408,802

The Company's predominant geographic segment is Canada.

# MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Three months ended May 31, 2000 and May 31, 1999

## 13. Economic dependence:

For the three months ended May 31, 2000, the Company earned a significant portion of its revenue from three (1999 - three) customers. As at May 31, 2000, approximately 41% (1999 - 54%) of the accounts receivable balance and 43% (1999 - 59%) of revenues for the period then ended were derived from these customers.

## 14. Related party transactions:

Amounts due from/to related parties are detailed as follows:

	2000	1999
Due from related parties:		
Due from Elliot & Andrews Studios Inc. (a)	\$ -	\$ 370,000
Due from Tribco Communications Group Inc. (b)	-	149,124
	\$ -	\$ 519,124
Due to related party:		
Due to shareholder (c)	\$ -	\$ 771,624
Less current portion of amount due to shareholder	-	252,500
	\$ -	\$ 519,124

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 were settled on February 29, 2000 by cancellation of 44,370 common shares at an average unit cost of \$2.09 pledged against amounts.

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. During 2000, the amount due to shareholder was repaid.

## 15. Subsequent event:

Subsequent to May 31, 2000, a special resolution was passed by the shareholders to eliminate the deficit of the Company at February 29, 2000 by reducing the stated capital by \$22,887,942, or such amount as may be acceptable to the auditors of the Company.