

Interim Consolidated Financial Statements of

MICROFORUM INC.

Six months ended, August 31, 2000 and 1999
(Unaudited)

MICROFORUM INC.

Consolidated Balance Sheets

August 31, 2000 and 1999
(Unaudited)

	2000	1999
Assets		
Current assets:		
Cash	\$ —	\$ 430,558
Marketable securities	33,098,732	17,596,931
Accounts receivable	20,816,338	8,962,054
Work in progress	1,987,215	3,118,695
Note receivable on sale of Microforum Italia s.r.l. (note 3)	—	100,000
Prepaid expenses and other assets	1,352,800	502,655
	<u>57,255,085</u>	<u>30,710,893</u>
Capital assets (note 4)	5,720,483	3,465,355
Investments	389,490	300,000
Intellectual property, net of accumulated amortization of \$228,169	2,841,222	—
Goodwill (note 5)	37,454,399	9,410,689
Due from related parties (note 14)	—	519,124
	<u>\$ 103,660,679</u>	<u>\$ 44,406,061</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	\$ 1,458,582	\$ —
Accounts payable and accrued liabilities	10,903,384	5,865,306
Deferred revenue	1,846,903	371,026
Due to shareholder (note 14)	—	252,500
Current portion of long-term debt (note 7)	272,670	694,655
	<u>14,481,539</u>	<u>7,183,487</u>
Long-term debt (note 7)	—	138,083
Due to shareholder (note 14)	—	519,124
Shareholders' equity:		
Capital stock (note 8)	99,339,695	56,785,594
Contributed Surplus	—	113,900
Deficit	(10,160,555)	(20,334,127)
	<u>89,179,140</u>	<u>36,565,367</u>
Commitments (note 11)		
	<u>\$ 103,660,679</u>	<u>\$ 44,406,061</u>

See accompanying notes to consolidated financial statements.

MICROFORUM INC.

Consolidated Statements of Operations and Deficit

Six months ended August 31, 2000 and 1999
(Unaudited)

	2000	1999
Sales (note 12)	\$ 31,942,076	\$ 20,598,443
Cost of sales	22,587,400	13,063,704
Gross profit	9,354,676	7,534,739
Operating expenses (income):		
General and administration	11,132,733	5,503,406
Sales and marketing	4,598,334	1,630,600
Interest on long-term debt	104,037	47,243
Investment income	(1,244,619)	-
	14,590,485	7,181,249
Income (loss) from operations before amortization of capital assets, goodwill and intellectual property and income taxes	(5,235,809)	353,490
Amortization of capital assets	704,944	532,786
Loss from operations before income taxes and amortization of goodwill and intellectual property	(5,940,753)	(179,296)
Income taxes (note 10)	40,000	-
Loss from operations before amortization of goodwill	(5,980,753)	(179,296)
Amortization of goodwill	4,179,802	248,865
Loss from operations	(10,160,555)	(428,161)
Recovery from discontinued software and hardware operations	-	80,000
Loss for the period	(10,160,555)	(348,161)
Deficit, beginning of period	(22,887,942)	(19,985,966)
Reduction of stated capital (note 8(b))	22,887,942	-
Deficit, end of period	\$ (10,160,555)	\$ (20,334,127)
Basic loss per share (note 8(c)):		
From continuing operations	\$ (0.26)	\$ (0.02)

See accompanying notes to consolidated financial statements.

MICROFORUM INC.

Consolidated Statements of Cash Flows

Six months ended August 31, 2000 and 1999
(Unaudited)

	2000	1999
Cash provided by (used in):		
Operating activities:		
Loss from operations	\$ (10,160,555)	\$ (428,161)
Items not affecting cash:		
Amortization of capital assets	704,944	532,786
Amortization of goodwill and intellectual property	4,179,802	248,865
Change in non-cash operating working capital:		
Accounts receivable	(4,546,239)	(1,199,285)
Work in progress	(234,308)	(952,055)
Prepaid expenses and other assets	(317,019)	(257,789)
Accounts payable and accrued liabilities	552,475	431,014
Deferred revenue	1,608,333	(664,832)
	<u>(8,212,567)</u>	<u>(2,289,457)</u>
Financing activities:		
Proceeds on issue of common shares, net	761,338	1,251,746
Proceeds on sale of treasury stock (note 3)	-	213,900
Proceeds on issue of special warrants	-	23,606,996
Long-term debt, net of repayments	(375,038)	(336,247)
Proceeds from officer loan repayment	-	512,167
Decrease in due to shareholder	(252,500)	-
	<u>133,800</u>	<u>25,248,562</u>
Investing activities:		
Purchase (sale) of marketable securities	17,438,197	(17,596,931)
Acquisition of capital assets, net	(2,079,176)	(306,328)
Acquisition of subsidiaries	(10,496,799)	(2,932,588)
Increase in investments	(89,490)	(300,000)
	<u>4,772,732</u>	<u>(21,135,847)</u>
Increase (decrease) in cash attributable to continuing operations	(3,306,035)	1,823,258
Decrease in cash attributable to discontinued software and hardware operations	-	(38,146)
Increase (decrease) in cash	(3,306,035)	1,785,112
Cash (bank indebtedness), beginning of period	1,847,453	(1,354,554)
Cash (bank indebtedness), end of period	<u>\$ (1,458,582)</u>	<u>\$ 430,558</u>
Supplemental disclosure of non-cash investing and financing activities:		
Common shares issued in connection with acquisition of subsidiaries	\$ 15,968,704	\$ 1,436,000

See accompanying notes to consolidated financial statements.

MICROFORUM INC.

Notes to Consolidated to Financial Statements

Six months ended August 31, 2000 and 1999
(Unaudited)

1. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Icom Alliance Incorporated (Ontario), Microforum Inc. (Delaware) and Blue Hypermedia, Inc. (New York) (1999 - Internet Frontier Inc., the PPL Group of Companies (the "PPL Group") and Q-Inter Applications Inc.).

(b) Work in progress:

Work in progress 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 annual 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 are being 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 revenue are recognized on a completed contract basis.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
(Unaudited)

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 period. Gains and losses on translation are included in the consolidated statements of operations.

The accounts of the Company's self sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the period-end rates and revenue and expenses are translated at the average exchange rates. Gains or losses arising from the translation of the financial statements of the foreign operation are deferred in a "Foreign currency translation adjustment" account in shareholders' equity.

(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 10 years (1999 - 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.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
(Unaudited)

1. Significant accounting policies (continued):

(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 approximate 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.

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 9. 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)

Six months ended August 31, 2000 and 1999
(Unaudited)

2. Acquisitions:

(a) Acquisitions during fiscal 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 \$72,417, 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.

(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 U.S. \$2,000,000 exclusive of expenses relating to the acquisition of \$55,521, of which U.S. \$500,000 was paid by way of cash and U.S. \$1,500,000 was paid by way of issue of 342,563 common shares of the Company.

(iii) Acquisition of Blue Hypermedia, Inc.:

Effective June 30, 2000, the Company acquired all the issued and outstanding common shares of Blue Hypermedia, Inc. The purchase price for the transaction was U.S. \$14,000,000 exclusive of expenses relating to the acquisition of \$1,695,178, of which U.S. \$4,900,000 was paid by way of cash and U.S. \$9,100,000 was paid by way of issue of 1,770,160 common shares of the Company. Included in the expenses relating to the acquisition are commissions of U.S. \$409,500, which were satisfied by the issuance of 79,657 common shares of the Company.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
(Unaudited)

2. Acquisitions (continued):

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

	Icom Alliance Incorporated	Flashcast Communications, Corp.	Blue Hypermedia, Inc.
Cash and cash equivalents	\$ —	\$ —	\$ 179,108
Current assets	430,440	—	1,267,124
Capital and other assets	26,627	—	478,064
Goodwill	1,123,400	—	20,795,616
Intellectual property	—	3,069,392	—
	1,580,467	3,069,392	22,719,912
Bank indebtedness	(69,456)	—	—
Liabilities assumed	(438,594)	—	(286,565)
Net assets	\$ 1,072,417	\$ 3,069,392	\$ 22,433,347

(b) Acquisitions during fiscal 2000 were 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.

(ii) Acquisition of Q-Inter Applications Inc.:

On 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 exclusive of expenses relating to the acquisition of \$170,000, 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.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
(Unaudited)

2. Acquisitions (continued):

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

	Software Guaranty Inc.	Q-Inter Applications Inc.
Cash and cash equivalents	\$ 135,518	\$ 55,919
Current assets	1,476,696	381,351
Capital and other assets	296,922	274,360
Goodwill	2,434,040	1,226,188
	4,343,176	1,937,818
Liabilities assumed	(946,043)	(457,818)
Net assets	\$ 3,397,133	\$ 1,480,000

3. 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)

Six months ended August 31, 2000 and 1999
(Unaudited)

4. Capital assets:

2000	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 8,765,511	\$ 5,071,339	\$ 3,694,172
Duplication and packaging equipment	1,688,593	1,315,920	372,673
Furniture, automotive and office equipment	1,775,360	1,128,138	647,222
Leasehold improvements	2,157,405	1,150,989	1,006,416
	<u>\$ 14,386,869</u>	<u>\$ 8,666,386</u>	<u>\$ 5,720,483</u>

1999	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 6,872,592	\$ 4,364,490	\$ 2,508,102
Duplication and packaging equipment	1,097,320	833,428	263,892
Furniture, automotive and office equipment	1,424,156	878,465	545,691
Leasehold improvements	1,174,615	1,026,945	147,670
	<u>\$ 10,568,683</u>	<u>\$ 7,103,328</u>	<u>\$ 3,465,355</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 \$2,730,569 (1999 - \$2,455,754).

Included in cost at August 31, 2000 are \$181,000 of computer equipment and software and \$633,000 of leasehold improvements, which are not available for use. Amortization of these assets will commence once these assets have been put into use by the Company.

5. Goodwill:

	2000	1999
Cost	\$ 44,187,358	\$ 9,989,703
Less accumulated amortization	6,732,959	579,014
	<u>\$ 37,454,399</u>	<u>\$ 9,410,689</u>

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
(Unaudited)

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 \$55,000 at August 31, 2000 (1999 - \$151,250). 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:

2000	Capital leases	Bank loans	Total	
2000	\$ 229,370	\$ 55,000	\$ 284,370	
Less imputed interest	11,700	–	11,700	
		217,670	55,000	272,670
Less current portion	217,670	55,000	272,670	
	\$ –	\$ –	\$ –	
<hr/>				
1999	Capital leases	Bank loans	Total	
2000	\$ 450,000	\$ 266,250	\$ 716,250	
2001	157,667	–	157,667	
		607,667	266,250	873,917
Less imputed interest	41,179	–	41,179	
		566,488	266,250	832,738
Less current portion	428,405	266,250	694,655	
	\$ 138,083	\$ –	\$ 138,083	

(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 \$100,000 (1999 - \$115,000), which bears interest at 7.25%, remaining amounts bear interest at prime plus 1%.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
(Unaudited)

8. Capital stock:

	2000	1999
Authorized:		
Unlimited preference shares		
Unlimited common shares		
Issued:		
42,234,307 common shares (1999 - 33,946,924)	\$ 99,339,695	\$ 56,785,594
(a) Common shares:		
	Number of shares	Amount
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)(i))	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)	100,000	100,000
Balance, May 31, 1999	27,435,219	34,315,236
Issued on acquisition of Q-Inter Applications Inc. (note 2(b)(ii))	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
Cancelled in satisfaction of related party loans	(44,370)	(92,733)
Cancelled in satisfaction of purchase price adjustment - SGI	(14,228)	(18,496)
Issued to directors for services rendered	4,348	10,218
Issued on acquisition of Two Door Communications Inc.	150,830	1,000,000
Issued on acquisition of Frameworks Inc.	301,659	2,000,000
Issued on acquisition of Relational Solutions Inc.	465,426	3,500,004
Conversion of warrants - broker	505,500	1,547,400
Issued on conversion of Employee Stock Option Plan	61,682	140,301
Balance, February 29, 2000	35,424,897	65,054,234
Conversion of warrants - broker	91,211	433,071
Issued for cash under stock option arrangements	4,333	13,017
Issued on conversion of special warrants	4,334,400	40,378,189
Issued on acquisition of Icom Alliance Incorporated (note 2(a)(i))	39,671	250,000
Issued on acquisition of assets of Flashcast Communications, Corp. (note 2(a)(ii))	342,563	2,230,085
Balance, May 31, 2000	40,237,075	108,358,596
Reduction of stated capital		(22,887,942)
Issued for cash under stock option arrangements	108,665	134,456
Conversion of warrants. - broker	38,750	251,875
Issued on acquisition of Blue Hypermedia, Inc. (note 2(a)(iii))	1,849,817	13,482,710
Balance, August 31, 2000	42,234,307	\$ 99,339,695

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
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8. Capital stock (continued):

(b) Stated capital reduction:

On June 28, 2000, a special resolution was passed by shareholders to eliminate the deficit of the Company at February 29, 2000 by reducing the stated capital by \$22,887,942. This deficit was accumulated in connection with the Company's historical operations and does not relate to the Company's current business mandate.

(c) Basic loss per share:

Basic loss per share is calculated using a weighted average number of outstanding shares of 39,589,576 (1999 - 28,167,069). 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 5,574,890 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 six months ended August 31, 2000 and 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	966,000	5.46	1,218,900	4.24
Options exercised	(112,998)	(1.31)	(347,902)	(2.56)
Cancelled	—	—	(676,389)	(3.01)
Balance, end of period	5,574,890	\$ 4.78	2,734,176	\$ 3.10
Exercisable, end of period	1,075,351	\$ 3.33	390,944	\$ 3.23

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
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9. Stock options (continued):

Range of exercise prices	Number of options outstanding	Weighted average remaining life	Weighted average exercise prices	Number of options exercisable	Weighted average prices
\$0.60 - \$1.13	249,169	7.87	0.67	77,062	\$0.84
1.24 - 1.35	460,117	7.76	1.28	224,951	1.29
2.35 - 3.50	1,243,303	8.24	2.75	511,637	2.88
4.55 - 6.60	2,115,801	9.26	5.12	163,701	6.10
6.85 - 8.20	1,506,500	9.36	7.74	98,000	7.71
\$0.60 - \$8.20	5,574,890	8.87	4.78	1,075,351	\$3.33

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

	Number of options	Exercise price	Expiry date
Compensation options	28,918	\$ 1.38	March 8, 2001
Compensation options	211,250	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	\$ (4,514,000)	\$ (155,000)
Large Corporations Tax	40,000	-
Goodwill amortization	1,864,000	111,000
Losses not tax effected	2,533,000	-
Other	117,000	44,000
	\$ 40,000	\$ -

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
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10. Income taxes (continued):

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

	2000	1999
Deferred tax assets:		
Tax loss carry-forwards	\$ 12,909,000	\$ 10,124,000
Property and equipment	175,000	175,000
Deductible financing expenses	447,000	—
	13,531,000	10,299,000
Less valuation allowance	13,531,000	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 August 31, 2000, the Company had approximately \$28,932,000 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
2008	5,679,000
	\$ 28,932,000

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 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:

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

12. Segmented information:

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 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.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

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(Unaudited)

12. Segmented information (continued):

2000	e-Business Solutions	Strategic Marketing	Advertising and Public Relations	Eliminations	Total
Sales	\$ 18,814,962	\$ 10,860,327	\$ 7,183,364	\$ (4,916,577)	\$ 31,942,076
Operating and other expenses	18,191,373	16,017,920	7,815,243	(4,846,651)	37,177,885
Income (loss) from operations before income taxes depreciation and amortization	\$ 623,589	\$ (5,157,593)	\$ (631,879)	\$ (69,926)	\$ (5,235,809)
Loss from continuing operations	\$ (3,492,191)	\$ (5,626,439)	\$ (971,999)	\$ (69,926)	\$ (10,160,555)
Additions to capital assets, net	\$ 1,944,806	\$ 127,762	\$ 6,608	\$ -	\$ 2,079,176
Additions to goodwill	\$ 21,919,018	\$ -	\$ -	\$ -	\$ 21,919,018
Identifiable assets from continuing operations	\$ 84,524,999	\$ 12,685,912	\$ 6,819,367	\$ -	\$ 104,030,278
1999	e-Business Solutions	Strategic Marketing	Advertising and Public Relations	Eliminations	Total
Sales	\$ 6,210,211	\$ 9,978,877	\$ 5,033,831	\$ (624,476)	\$ 20,598,443
Operating and other expenses	6,126,747	9,677,630	5,065,052	(624,476)	20,244,953
Income (loss) from operations before income taxes depreciation and amortization	\$ 83,464	\$ 301,247	\$ (31,221)	\$ -	\$ 353,490
Income (loss) from continuing operations	\$ (373,943)	\$ 30,838	\$ (85,056)	\$ -	\$ (428,161)
Additions to capital assets, net	\$ 306,328	\$ -	\$ -	\$ -	\$ 306,328
Additions to goodwill	\$ 3,660,228	\$ -	\$ -	\$ -	\$ 3,660,228
Identifiable assets from continuing operations	\$ 42,497,791	\$ 10,258,508	\$ 2,367,853	\$ (10,718,091)	\$ 44,406,061

The Company's predominant geographic segment is Canada.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Six months ended August 31, 2000 and 1999
(Unaudited)

13. Economic dependence:

For the six months ended August 31, 2000, the Company earned a significant portion of its revenue from three (1999 - three) customers. As at August 31, 2000, approximately 44% (1999 - 69%) of the accounts receivable balance and 37% (1999 - 61%) of revenue 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. Supplemental cash flow information:

Interest paid	\$ 103,390	\$ 116,413
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