

Interim Consolidated Financial Statements of

MICROFORUM INC.

Nine months ended November 30, 2000 and 1999
(Unaudited)

MICROFORUM INC.

Consolidated Balance Sheets

November 30, 2000 and 1999
(Unaudited)

	2000	1999
Assets		
Current assets:		
Marketable securities	\$ 28,683,239	\$ 18,110,662
Accounts receivable	14,548,313	12,126,481
Leasehold inducement allowance receivable (note 4)	1,600,000	—
Work in progress	2,148,994	3,714,006
Note receivable on sale of Microforum Italia s.r.l. (note 3)	—	100,000
Prepaid expenses and other assets	631,195	481,906
	<u>47,611,741</u>	<u>34,533,055</u>
Capital assets (note 4)	7,969,540	3,694,583
Investments	339,490	300,000
Intellectual property, net of accumulated amortization of \$511,566	2,820,877	—
Goodwill (note 5)	5,000,000	14,946,029
Due from related parties (note 14)	—	519,124
	<u>\$ 63,741,648</u>	<u>\$ 53,992,791</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	\$ 4,202,986	\$ 539,307
Accounts payable and accrued liabilities	11,398,360	8,319,080
Accrued loss from discontinued operations (note 3)	2,600,000	—
Accrued acquisition costs (note 2)	—	3,838,000
Deferred revenue	1,846,509	104,026
Due to shareholder (note 14)	—	252,500
Current portion of long-term debt (note 7)	388,718	674,712
	<u>20,436,573</u>	<u>13,727,625</u>
Long-term debt (note 7)	752,192	—
Due to shareholder (note 14)	—	419,124
Shareholders' equity:		
Capital stock (note 8)	99,360,992	56,967,540
Shares to be issued on acquisition (notes 2(b)(iii), 2(b)(iv) and 8(e))	638,298	3,000,000
Contributed surplus	—	113,900
Cumulative translation adjustment	(67,269)	—
Deficit	(57,379,138)	(20,235,398)
	<u>42,552,883</u>	<u>39,846,042</u>
Commitments (note 12)		
Subsequent event (notes 2(a)(i) and 17)		
	<u>\$ 63,741,648</u>	<u>\$ 53,992,791</u>

See accompanying notes to consolidated financial statements.

MICROFORUM INC.

Consolidated Statements of Operations and Deficit

Nine months ended November 30, 2000 and 1999
(Unaudited)

	2000	1999
Sales	\$ 24,259,397	\$ 9,960,954
Cost of sales	14,711,227	3,808,541
Gross profit	9,548,170	6,152,413
Operating expenses (income):		
Selling, general and administration	12,406,865	5,571,590
Interest on long-term debt	112,105	67,879
Bad debts	3,717,460	100,000
Severance and other costs (note 10)	1,624,641	-
Investment income	(1,709,477)	-
	16,151,594	5,739,469
Income (loss) from continuing operations before amortization of capital assets and intellectual property, amortization and impairment of goodwill, income taxes and discontinued operations	(6,603,424)	412,944
Amortization of capital assets and intellectual property	1,219,866	532,079
Loss from continuing operations before amortization and impairment of goodwill, income taxes and discontinued operations	(7,823,290)	(119,135)
Income taxes (note 11)	80,000	-
Loss from continuing operations before amortization and impairment of goodwill, and discontinued operations	(7,903,290)	(119,135)
Amortization and impairment of goodwill (note 5)	29,751,962	671,996
Loss from continuing operations before discontinued operations	(37,655,252)	(791,131)
Income (loss) from discontinued operations (note 3)	(19,723,886)	541,699
Loss for the period	(57,379,138)	(249,432)
Deficit, beginning of period	(22,887,942)	(19,985,966)
Reduction of stated capital (note 8(b))	22,887,942	-
Deficit, end of period	\$ (57,379,138)	\$ (20,235,398)
Basic earnings (loss) per share (note 8(d)):		
From continuing operations, before amortization and impairment of goodwill	\$ (0.20)	\$ -
From continuing operations	\$ (0.93)	\$ (0.03)
From discontinued operations	(0.49)	0.02
Loss for the period	\$ (1.42)	\$ (0.01)

See accompanying notes to consolidated financial statements.

MICROFORUM INC.

Consolidated Statements of Cash Flows

Nine months ended November 30, 2000 and 1999
(Unaudited)

	2000	1999
Cash provided by (used in):		
Operating activities:		
Loss from continuing operations	\$ (37,655,252)	\$ (791,131)
Items not affecting cash:		
Amortization of capital assets and intellectual property	1,219,866	532,079
Amortization and impairment of goodwill	29,751,962	671,996
Change in non-cash operating working capital:		
Accounts receivable	697,759	(495,747)
Work in progress	391,127	(339,303)
Prepaid expenses and other assets	402,561	(356,026)
Accounts payable and accrued liabilities	947,099	607,935
Deferred revenue	523,659	(926,804)
	(3,721,219)	(1,097,001)
Financing activities:		
Proceeds on issue of common shares, net	835,160	1,423,475
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	(532,561)	(701,815)
Shares issued as director compensation	—	10,217
Proceeds from officer loan repayment	—	512,167
Decrease in due to shareholder	(252,500)	(270,090)
	50,099	24,794,850
Investing activities:		
Sale (purchase) of marketable securities	21,853,690	(18,110,662)
Lease inducement allowance receivable	(1,600,000)	—
Acquisition of capital assets, net	(2,875,403)	(478,159)
Acquisition of subsidiaries, net of cash acquired	(10,398,285)	(2,876,955)
Increase in investments	(39,490)	(300,000)
	6,940,512	(21,765,776)
Increase in cash attributable to continuing operations	3,269,392	1,932,073
Decrease in cash attributable to discontinued operations	(9,319,831)	(1,116,826)
Increase (decrease) in cash	(6,050,439)	815,247
Cash (bank indebtedness), beginning of period	1,847,453	(1,354,554)
Bank indebtedness, end of period	\$ (4,202,986)	\$ (539,307)

Supplemental cash flow information (note 15).

See accompanying notes to consolidated financial statements.

MICROFORUM INC.

Notes to Consolidated to Financial Statements

Nine months ended November 30, 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. All intercompany transactions and balances have been eliminated in the accompanying financial statements.

(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. and P2P3 Systems Inc. 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)

Nine months ended November 30, 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 "Cumulative 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 3 to 10 years (1999 - 3 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 operating unit'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)

Nine months ended November 30, 2000 and 1999
(Unaudited)

1. Significant accounting policies (continued):

(i) Financial instruments:

Fair values:

The carrying amounts reported in the balance sheets of marketable securities, accounts receivable, leasehold inducement allowance receivable, note receivable on sale of Microforum Italia s.r.l., due from related parties, bank indebtedness, accounts payable and accrued liabilities, accrued loss from discontinued operations, accrued acquisition costs 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)

Nine months ended November 30, 2000 and 1999
(Unaudited)

2. Acquisitions:

(a) Acquisitions during the nine month period ended November 30, 2000 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 issue up to 396,736 common shares of the Company, over 30 months, upon the achievement of certain conditions. Subsequent to November 30, 2000, the Company agreed to issue 396,736 common shares of the Company as settlement of the additional consideration provisions of the acquisition agreement which when issued will result in additional compensation expense of \$253,911.

(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)

Nine months ended November 30, 2000 and 1999
(Unaudited)

2. Acquisitions (continued):

(iv) Acquisition of the P2P3 Assets:

Effective October 25, 2000, the Company acquired substantially all of the productive assets of P2P3 Systems Inc., The Unire Group Inc. and 1421376 Ontario Inc. (collectively, the "P2P3 Assets"). The purchase price for the transaction was \$200,000 exclusive of expenses relating to the acquisition of \$21,000. As additional consideration, the Company has issued 300,000 warrants, subject to vesting (note 8(c)).

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

	Icom Alliance Incorporated	Flashcast Communications, Corp.	Blue Hypermedia, Inc.	P2P3 Assets
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	—	221,000
	1,580,467	3,069,392	22,719,912	221,000
Bank indebtedness	(69,456)	—	—	—
Liabilities assumed	(438,594)	—	(286,565)	—
Net assets	\$ 1,072,417	\$ 3,069,392	\$ 22,433,347	\$ 221,000

(b) Acquisitions during the nine months ended November 30, 1999 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.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

2. Acquisitions (continued):

(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.

(iii) Acquisition of Two Door Communications Corporation:

Effective October 1, 1999, the Company acquired all the issued and outstanding common shares of Two Door Communications Corporation. 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 150,830 common shares of the Company subsequent to November 30, 1999. As additional consideration, the Company had agreed to pay \$1.053 for each \$1.00 of pre-tax profit earned by Two Door Communication Corporation for the twelve month period ending September 30, 2000, up to a maximum of \$1,000,000. Any such additional consideration would be in the form of common shares and would be accounted for as goodwill. It has been determined that no additional consideration will be paid.

(iv) Acquisition of Frameworks Communications Inc.:

Effective October 1, 1999, the Company acquired all the issued and outstanding common shares of Frameworks Communications 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 subsequent to November 30, 1999.

Certain costs relating to the acquisitions in the period ended November 30, 1999 were not determinable as of that date. Such costs were determined to be \$606,504 and were recorded as an adjustment to goodwill in the quarter ended February 29, 2000.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 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.	Two Door Communications Corporation	Frameworks Communications Inc.
Cash and cash equivalents	\$ 135,518	\$ 55,919	\$ 160,843	\$ -
Current assets	1,476,696	381,351	888,474	672,627
Capital and other assets	296,922	274,360	26,753	277,674
Goodwill	2,225,536	1,161,188	1,824,870	4,577,604
	4,134,672	1,872,818	2,900,940	5,527,905
Bank indebtedness	-	-	-	(61,606)
Liabilities assumed	(946,043)	(457,818)	(852,940)	(676,299)
Net assets	\$ 3,188,629	\$ 1,415,000	\$ 2,048,000	\$ 4,790,000

3. Discontinued operations and disposals:

(a) Discontinued business segments:

The Company initiated plans in fiscal 2000 to discontinue certain of its operations and restructure its remaining operations to concentrate on the e-Business Solutions segment. The Board of Directors has approved a formal plan to dispose of the Strategic Marketing and Advertising and Public Relations segments. The disposition of the Strategic Marketing segment is expected to be completed before the end of the third quarter of fiscal 2002. The disposition of the Advertising and Public Relations segment is expected to be completed by February 28, 2001. The results from discontinued operations have been reported separately in these financial statements and include the operating loss to the measurement date, November 30, 2000, and the expected costs of discontinuance, net of estimated proceeds, to the expected disposal dates as follows:

	2000	1999
Revenue	\$ 21,830,403	\$ 23,716,906
Operating expenses	32,367,509	23,175,207
Write-off of related goodwill	6,586,780	-
Income (loss) to measurement date	(17,123,886)	541,699
Estimated loss from measurement date to disposal date	(2,600,000)	-
	\$ (19,723,886)	\$ 541,699

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

3. Discontinued operations and disposals:

	2000	1999
Current assets:		
Accounts receivable	\$ 8,568,797	\$ 9,311,387
Work in progress	2,276,490	2,558,708
Prepaid expenses and other assets	38,819	36,016
	10,884,106	11,906,111
Capital assets	849,012	827,274
Goodwill	–	7,403,398
Total assets attributed to discontinued operations	\$ 11,733,118	\$ 20,136,783
Liabilities:		
Accounts payable and accrued liabilities	\$ 4,914,112	\$ 6,675,610
Accrued acquisition costs	–	1,048,000
Accrued loss from discontinued operations	2,600,000	–
Deferred revenue	1,192,009	6,117
Total liabilities attributed to discontinued operations	\$ 8,706,121	\$ 7,729,727

For the nine months ended November 30, 2000, the Company earned a significant portion of its revenue from discontinued operations from three (1999 - three) customers. As at November 30, 2000, approximately 88% (1999 - 69%) of the accounts receivable balance from discontinued operations and 84% (1999 - 76%) of revenue from discontinued operations for the period then ended were derived from these customers.

(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. 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)

Nine months ended November 30, 2000 and 1999
(Unaudited)

4. Capital assets:

2000	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 9,109,741	\$ 5,338,267	\$ 3,771,474
Duplication and packaging equipment	1,689,761	1,348,880	340,881
Furniture, automotive and office equipment	3,224,078	1,169,684	2,054,394
Leasehold improvements	2,982,304	1,179,513	1,802,791
	<u>\$ 17,005,884</u>	<u>\$ 9,036,344</u>	<u>\$ 7,969,540</u>

1999	Cost	Accumulated amortization	Net book value
Computer equipment and software	\$ 7,435,430	\$ 4,732,462	\$ 2,702,968
Duplication and packaging equipment	1,097,320	854,526	242,794
Furniture, automotive and office equipment	1,554,643	940,400	614,243
Leasehold improvements	1,201,906	1,067,328	134,578
	<u>\$ 11,289,299</u>	<u>\$ 7,594,716</u>	<u>\$ 3,694,583</u>

Included in the above capital assets are assets under capital lease with a cost of \$4,544,750 (1999 - \$3,477,010) and accumulated amortization of \$2,818,026 (1999 - \$2,528,791).

Under the rental agreement with its landlord, the Company is entitled to receive a leasehold inducement allowance of approximately \$1,600,000, which has been applied to reduce the cost of leasehold improvements.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

5. Goodwill:

	2000	1999
Cost	\$ 44,825,656	\$ 16,392,177
Less:		
Accumulated amortization	10,047,876	1,446,148
Goodwill impairment on continuing operations	23,191,000	—
Goodwill impairment on discontinued operations	6,586,780	—
	<u>\$ 5,000,000</u>	<u>\$ 14,946,029</u>

During the period ended November 30, 2000 the evaluation of the carrying value of the goodwill led to a determination by management that due to the significant downturn in the emerging new economy, the market for certain products and services of the Company was significantly curtailed, resulting in a permanent impairment in certain amounts of goodwill. Consequently, during the nine months ended November 30, 2000, there was a write down of \$23,191,000 relating to certain businesses acquired and forming a part of continuing operations and an additional write off relating to discontinued operations of \$6,586,780 which is included in the loss from discontinued operations (note 3).

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 \$73,158 at November 30, 2000 (1999 - \$124,603). 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.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

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	\$ 101,679	\$ 73,158	\$ 174,837
2001	406,686	–	406,686
2002	406,686	–	406,686
2003	305,027	–	305,027
	1,220,078	73,158	1,293,236
Less imputed interest	152,326	–	152,326
	1,067,752	73,158	1,140,910
Less current portion	315,560	73,158	388,718
	\$ 752,192	\$ –	\$ 752,192

1999	Capital leases	Bank loans	Total
2000	\$ 450,000	\$ 224,603	\$ 674,603
2001	30,611	–	30,611
	480,611	224,603	705,214
Less imputed interest	30,502	–	30,502
	450,109	224,603	674,712
Less current portion	450,109	224,603	674,712
	\$ –	\$ –	\$ –

(a) Capital lease obligations bear interest at a rate of approximately 9.4%. 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 \$nil (1999 - \$100,000), 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:		
42,239,173 common shares (1999 - 33,994,050)	\$ 99,360,992	\$ 56,967,540

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

8. Capital stock (continued):

(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	1,850,000	962,000
Issued on acquisition of Software Guaranty Inc.	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.	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	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.	1,849,817	13,482,710
Balance, August 31, 2000	42,234,307	99,339,695
Issued to directors for services rendered	3,434	18,544
Issued for cash under stock option arrangements	1,432	2,753
Balance, November 30, 2000	42,239,173	\$ 99,360,992

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

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) Warrants:

On October 25, 2000, in connection with the acquisition of certain assets of P2P3 Systems Inc. (note 2(a)(iv)), the Company issued 300,000 warrants, in satisfaction of the purchase price. The warrants are exercisable without payment of additional consideration into options to purchase up to an aggregate of 300,000 common shares of the Company at an exercise price of \$2.19. The options vest as to 100,000 on the completion of a productized version of PersonEngine or PersonHelp within 6 months following the closing of the acquisition, failing which the 100,000 options shall be cancelled. In the event that both PersonEngine and PersonHelp are productized prior to the 6 month anniversary of the closing date, an additional 50,000 options shall vest. In addition, 150,000 options vest upon the achievement of revenue targets as specified in the Asset Purchase Agreement.

(d) Basic earnings (loss) per share:

Basic earnings (loss) per share are calculated using a weighted average number of outstanding shares of 40,466,224 (1999 – 30,083,154). Fully diluted earnings (loss) per share data are not presented, as they are anti-dilutive.

(e) Shares to be issued on acquisition:

In connection with the acquisition of Relational Solutions Inc., which occurred effective December 1, 1999, the Company, has issued, effective December 1, 2000, 797,872 common shares (\$638,298) as additional consideration.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

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 8,250,000 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 nine months ended November 30, 2000 and year ended February 29, 2000 is as follows:

	Nine months ended November 30, 2000		Year ended February 29, 2000	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Balance, beginning of period	4,721,888	\$ 5.24	1,628,605	\$ 2.95
Options granted	2,890,500	2.80	1,483,327	1.72
Options exercised	(114,430)	1.31	(509,164)	1.85
Options cancelled	(918,553)	4.71	(63,201)	2.77
Balance, end of period	6,579,405	3.82	2,539,567	2.46
Exercisable, end of period	1,698,840	\$ 2.46	586,536	\$ 2.96

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	1,668,116	9.77	\$ 0.95	725,317	\$ 0.97
1.24 - 1.35	349,847	7.46	1.27	264,951	1.28
1.98 - 2.45	1,016,101	8.71	2.33	284,069	2.44
3.15 - 4.55	669,300	8.18	3.87	122,802	3.60
4.90 - 7.10	1,933,539	9.10	5.48	238,368	6.25
8.00 - 8.20	942,502	9.03	8.01	63,333	8.05
0.60 - 8.20	6,579,405	9.02	3.82	1,698,840	2.46

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

9. Stock options (continued):

The Company has granted the following options, which are outstanding at November 30, 2000:

	Number of options	Exercise price	Expiry date
Compensation options	28,918	\$ 1.38	March 8, 2001
Compensation options	303,409	10.00	August 10, 2001

10. Severance and other costs:

Severance and other costs are comprised of \$1,086,027 of severance costs, \$110,000 of moving costs and \$428,614 of professional fees.

11. Income taxes:

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

	2000	1999
Effective income tax rate	44.6%	44.6%
Income tax recovery based on the loss from continuing operations before income taxes	\$ (16,759,000)	\$ (353,000)
Large Corporations Tax	80,000	—
Goodwill amortization and impairment	13,269,000	300,000
Losses not tax effected	3,378,000	—
Other	112,000	53,000
	\$ 80,000	\$ —

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

11. Income taxes (continued):

Significant components of the Company's deferred income taxes as of November 30, 2000 and 1999 are as follows:

	2000	1999
Deferred tax assets:		
Tax loss carry-forwards	\$ 14,330,000	\$ 10,371,000
Property and equipment	175,000	175,000
Deductible financing expenses	447,000	—
	14,952,000	10,546,000
Less valuation allowance	(14,952,000)	(10,546,000)
	\$ —	\$ —

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 November 30, 2000, the Company had approximately \$32,129,000 of unrecognized non-capital tax losses, which may be carried forward to reduce future years' taxable income. These losses expire as follows:

2002	\$ 300,000
2003	8,600,000
2004	9,300,000
2005	4,500,000
2006	553,000
2007	8,876,000
	\$ 32,129,000

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

12. Operating lease commitments:

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

2001	\$ 2,575,000
2002	3,199,000
2003	3,235,000
2004	2,874,000
2005	2,449,000
Thereafter	8,634,000

13. Segmented information:

As a result of the planned discontinuation of operations of two of its three business segments (note 3), the Company operates in only one business segment. The Company's predominant geographic segment is Canada. Consequently, no additional information has been provided.

The Company continuing business is that of digital transformation 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.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

14. Related party transactions:

(a) 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)	\$ -	\$ 671,624
Less current portion of amount due to shareholder	-	252,500
	\$ -	\$ 419,124

The companies in (a) and (b) are ultimately controlled by a former controlling shareholder of the PPL Group who was 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, which matures March 31, 2000. During 2000, the amount due to shareholder was repaid.

(b) During the period ended, the Company incurred \$480,523 (1999 - \$543,578) of professional fees paid to a law firm in which a director of the Company is also a partner. These fees were incurred in the normal course of operations.

MICROFORUM INC.

Notes to Consolidated Financial Statements (continued)

Nine months ended November 30, 2000 and 1999
(Unaudited)

15. Supplemental cash flow information:

	2000	1999
Supplemental cash flow information:		
Interest paid	\$ 156,293	\$ 91,734
Income taxes paid	164,615	11,012
Supplemental disclosure of non-cash investing and financing activities:		
Common shares issued in connection with acquisition of subsidiaries	\$ 15,968,704	\$ 1,436,000
Acquisition of capital assets financed by the assumption of a capital lease	1,002,739	-

16. Comparative information:

Certain comparative information has been reclassified to conform with the presentation adopted in the current period.

17. Subsequent event:

By agreement between the Company and certain former senior officers of the Company, 988,161 options were surrendered and 224,913 common shares were cancelled.