

microforum

**First Quarter Report
May 31, 2002**

Management's Discussion and Analysis of Financial Condition and Results of Operations

First Quarter Fiscal 2003 Compared To First Quarter Fiscal 2002

Companies' Creditors Arrangement Act

In view of the Company's financial position, the diminishing demand for its products and services, the weakening economy in the technology sector, and the state of negotiations with a number of creditors including the property landlord at its corporate office in Toronto, the Company filed for, and received, protection from the Ontario Superior Court of Justice (the "Court") under the *Companies' Creditors Arrangement Act* ("CCAA") on January 29, 2002. Protection was first granted to February 28, 2002 and subsequently extended at various times until July 31, 2002. The Company prepared a Plan of Compromise and Arrangement (the "Plan") and, with approval of the Court, distributed the Plan to its creditors. The Plan proposed that secured creditors would receive 100% of the amount of their proven claims up to \$25,000 and that the balance would be paid as to 50% in cash while the unsecured creditors would receive 50% of their proven claims in cash. The Plan was approved unanimously by both secured and non-secured creditors on June 25, 2002 and is anticipated to be sanctioned by the Court on or before July 12, 2002.

The following represent the significant transactions concluded by the Company under protection of the CCAA:

- The Company has been discharged of future rent obligation of approximately \$20,336,865 under a property lease for its corporate facility at 150 Ferrand Drive ("Ferrand"). Under the terms of the agreement with the Ferrand landlord, the Company forfeited its rental deposit of \$110,000, made a cash payment of \$500,000 to the Ferrand landlord, paid certain costs associated with the transactions of approximately \$20,000 and issued on June 7, 2002 to the Ferrand landlord 1,000,000 common shares of the Company subject to a 12-month resale restriction.
- The Company has been discharged of future equipment lease obligation of approximately \$750,000 for office furniture under an equipment lease with an equipment lessor. Under the terms of the agreement, the Company purchased certain of the furniture under lease for \$150,000 plus applicable taxes representing the market value at the time, returned the remaining non-purchased furniture and received a full release of the remaining obligation.
- As a result of the approval of the Plan the Company's working capital has increased subsequent to the end of the current accounting period by approximately \$835,000 reflecting the acceptance and implementation of the Plan described above.

Reorganization

Following the Company's evaluation of its financial position the Company secured the services of TD Securities Inc. to help it market those businesses that were deemed not core to its go forward strategy

including those that could not be restructured into positive cash flows within a short term period in the view of maximizing shareholder value. As a result, the Company has disposed of the following operating assets:

- Strategy Marketing Business ("PPL")

On April 26, 2002, the Company entered into a sale agreement at a nominal amount, effective as of April 15, 2002. In exchange for substantially all of the assets in the Strategic Marketing segment, the purchaser agreed to assume all obligations associated with retaining the existing employees of the Company, the Tomken Lease, equipment leases and vehicle leases related to that business. Assets of the disposed business consisted of equipment, permits, licences, books and records, contracts, intellectual property, certain accounts receivable and work-in-process. As part of the sale agreement, the Company retained certain accounts receivable and accounts payable.

- Deployed Consulting Services ["DCS"]

The DCS unit provides professional consulting services to customers, including business analysis, systems design, project management, and technical architecture review.

On January 28, 2002, the Company entered into a legally binding asset purchase agreement with Cognicase Inc. ["Cognicase"], with an effective date of January 31, 2002 and completed on March 1, 2002. The purchase price for the assets was \$2 million, which was satisfied by the issuance of 196,329 common shares of Cognicase to the Company at a price of \$10.187 per share, as determined by the procedure set forth in the agreement. As a result, a gain of \$2 million was recognized in the year. The common shares of Cognicase are traded on The Exchange under the stock symbol "COG" and are subject to a four-month restriction on resale ending July 20, 2002. As at May 31, 2002, a Cognicase common share has an approximate market value of \$7.10. On March 19, 2002, the Company received the Cognicase common shares in exchange for the assets provided for under the asset purchase agreement.

- Internet (On-Line) Solutions Group ["ISG"]

The ISG unit designs, develops and deploys customer centric Internet business solutions, including corporate intranets and extranets, management information systems, on-line storefronts, custom web-based applications and the integration of enterprise back-end systems with web front-ends. The Company closed this business unit in September 2001.

- Enterprise Solutions Group ["ESG"]

The ESG unit sells, implements and supports Navision, a third-party enterprise resource planning software for small and medium-sized enterprise clients. The Company closed this business unit in March 2002.

- Media Replication Services ["MRS"]

The MRS unit produces, duplicates and distributes media on various types of media, including DVDs, CD-ROMs, diskettes, videotapes, business card-CDs, and shape-CDs.

On January 14, 2002, the Company completed the sale of all of the assets comprising this business unit to three former members of management of this business unit for a purchase price of \$299,000 consisting of a cash payment of \$200,000 on closing and the delivery of a secured promissory note in the amount of \$99,000 payable over 18 months. On March 6, 2002, the Company received a cash payment of \$70,000 in exchange for the cancellation of this promissory note.

At the end of the quarter, the Company continued operating the CALMS Solution Group ["CSG"]

The CSG unit implements a proprietary web-enabled software, Credit Adjudication & Lending Management System ["CALMS"], to automate an organization's credit originating process. The software is targeted to the financial services sector, particularly the equipment leasing and captive financing companies.

Results of Operations

The Company reported a loss of \$2.9 million during the quarter ended May 31, 2002 (the "first quarter fiscal 2003") compared to a loss of \$8.2 million in the quarter ended May 31, 2001. Of the loss for the first quarter of the previous fiscal year, \$3.1 million related to the combined amortization of capital assets and goodwill.

Revenues were \$0.8 million during the current quarter compared to \$4.8 million in the same quarter of one year ago reflecting the reorganization of the Company and the divestitures of all but one business unit of the Company.

The Company recorded a gross loss of \$0.8 million during the quarter ended May 31, 2002 compared to a gross profit of \$1.4 million during the same quarter of fiscal 2002 again as a result of the divestiture of most of the business units in the quarter.

Operating expenses during the current quarter were \$1.2 million and included \$0.3 million of professional fees related to the Company's filing under the *Companies Creditors Arrangement Act* ("CCAA"). Other expenses for \$0.9 million reflected the reduced operating cost structure of the Company as a result of the disposition of most of its business units and the reorganization of the office lease at the Company's facility in Toronto. Operating expenses during the quarter ended May 31, 2001 were \$6.5 million including \$2.3 million related to provision taken by the Company as part of an earlier reorganization strategy.

The Company recorded an investment loss of \$606,064 during the current quarter to reflect the lower market value as at May 31, 2002, in connection with the 196,329 restricted shares of Cognicase Inc. it received and continues to hold as part of the sale of the Deployed Consulting Services ("DCS") business unit.

Liquidity and Capital Resources

As at May 31, 2002, the Company had positive working capital of \$1.9 million compared to working capital of \$4.6 million as at February 28, 2002.

Cash on hand at May 31, 2002 was \$4.0 million compared to \$5.9 million as at February 28, 2002. Cash on hand at May 31, 2002 will be used in part to settle the compromised creditors claims under CCAA for approximately \$835,000 and to make the payment under the agreement between the Company and the landlord at the Ferrand Drive premises.

Marketable securities of \$1.4 million represent the market value as at May 31, 2002, from the proceeds from the sale by the Company of its DCS business unit in the form of 196,329 common shares of Cognicase Inc., which are restricted as to their re-sale until July 20, 2002.

Accounts receivable of \$1.4 million at May 31, 2002 represent a reduction of \$2.5 million from the accounts receivable reported at February 28, 2002. This reduction is the combined effect of actual cash collections combined with the reclassification of the proceeds from the sale of the DCS business unit for \$2.0 million, which were accrued under this heading by the Company as at February 28, 2002 and received, in the form of common shares in Cognicase Inc. subsequent to the end of the year and re-classified as Marketable Securities.

Work in progress at May 31, 2002 was \$1.1 million compared to \$1.2 million at February 28, 2002 reflecting the advancement of remaining projects within the CALMS business group combined with the termination of another project.

Accounts payable and accrued charges were \$4.7 million as at May 31, 2002, a decrease of \$0.2 million from the \$4.9 million reported at February 28, 2002. The smaller than expected decrease is due in part because the compromised claims of the Company under the CCAA Plan of Arrangement and Compromise (the "Plan") and will only be settled subsequent to the sanction of the Plan scheduled for July 12, 2002.

Deferred revenue of \$1.3 million is similar to the amount reported at February 28, 2002 reflecting progress payments on certain CALMS contracts under continued development offset by the termination of another project.

Outlook

The Company is exploring a number of opportunities to maximize the value of its remaining assets. Among other possibilities, the Company will be examining the opportunity to enter the equipment finance and leasing industry. However, its ability to continue as a going concern is dependent upon the successful realization of those remaining assets, the deployment of the Company's new business strategy and achieving and maintaining profitable operations.

Consolidated Balance Sheets

<i>(unaudited)</i>	May 31 2002	February 28 2002
Assets		
Current Assets		
Cash	\$4,070,598	\$5,853,320
Marketable Securities	1,393,936	--
Accounts Receivable	1,373,591	3,887,817
Work in Progress	1,062,835	1,176,880
Other Assets	--	132,340
	<u>\$7,900,960</u>	<u>\$11,050,357</u>
Capital Assets	--	300,000
	<u>\$7,900,960</u>	<u>\$11,350,357</u>
 Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable and Accrued Charges	\$4,705,143	\$4,905,709
Accrued Severance and Other Costs	--	330,000
Deferred Revenue	1,344,530	1,359,517
	<u>\$6,049,673</u>	<u>\$6,595,226</u>
 Shareholders' Equity		
Capital Stock	\$27,490,754	\$27,486,285
Accumulated Deficit	(25,639,467)	(22,731,153)
	<u>\$1,851,287</u>	<u>\$4,755,131</u>
	<u>\$7,900,960</u>	<u>\$11,350,357</u>

**Consolidated Statements of Operations and Accumulated Deficit
Three Month Periods Ended May 31, 2002 and 2001**

<i>(unaudited)</i>	May 31 2002	May 31 2001
Sales	\$827,614	\$4,806,207
Cost of Sales	1,624,747	3,366,898
Gross Profit	(\$797,133)	\$1,439,309
Operating Expenses (Income)		
Selling, General and Administrative	\$848,080	\$4,244,368
CCAA Professional Fees	324,376	--
Interest on Long-term Debt	--	18,716
Severance and Other Costs	--	2,346,055
Investment Income	(17,339)	(125,777)
	\$1,155,117	\$6,483,362
	(\$1,952,250)	(\$5,044,053)
Investment Loss on Marketable Securities	606,064	
Income (Loss) before Amortization and Write-Down of Capital Assets, Amortization and Impairment of Goodwill and Income Taxes	(\$2,558,314)	(\$5,044,053)
Amortization and Write-down of Capital Assets	300,000	1,677,507
Income (Loss) before Amortization and Impairment of Goodwill and Income Taxes	(\$2,858,314)	(\$6,721,560)
Income Taxes	50,000	20,000
Income (Loss) before Amortization and Impairment of Goodwill	(\$2,908,314)	(\$6,741,560)
Amortization and Impairment of Goodwill	--	1,457,099
Operating Loss for the Period	(\$2,908,314)	(\$8,198,659)
Deficit, Beginning of the Period	22,731,153	73,577,171
Deficit, End of the Period	\$25,639,467	\$81,775,830
Basic Loss per Share	(\$0.07)	(\$0.19)
Pro-forma Basic Loss per Share	(\$0.05)	--

Consolidated Statements of Cash Flows
Three Month Periods Ended May 31, 2002 and 2001

<i>(unaudited)</i>	May 31 2002	May 31 2001
Cash Provided by (used in):		
Operating Activities:		
Loss from Operations	(\$2,908,314)	(\$8,198,659)
Items not Affecting Cash:		
Amortization and Write-down of Capital Assets	300,000	1,677,507
Gain on Disposal of Fixed Assets	--	(20,569)
Amortization and Impairment of Goodwill	--	1,457,099
Changes in Non-Cash Working Capital		
Accounts Receivable	514,225	502,416
Marketable Securities	606,064	
Work in Progress	114,045	(1,813,844)
Prepaid Expenses and Other Assets	132,340	(126,586)
Accounts Payable and Accrued Liabilities	(196,095)	(3,031,593)
Accrued Severance and Other Costs	(330,000)	1,462,329
Deferred Revenue	(14,987)	1,626,610
	<u>(\$1,782,722)</u>	<u>(\$6,465,290)</u>
Financing Activities:		
Long-term Debt, Net of Repayments	--	(\$97,778)
Investing Activities:		
Sale of Marketable Securities	--	\$7,306,781
Acquisition of Capital Assets	--	(609,702)
	<u>\$0</u>	<u>\$6,697,079</u>
Increase (Decrease) in Cash from Continued Operations	(\$1,782,722)	\$134,011
Increase (Decrease) in Cash from Discontinued Operations	--	1,169,821
Increase (Decrease) in Cash During the Period	(\$1,782,722)	\$1,303,832
Cash and Cash Equivalent, Beginning of Period	5,853,320	14,515,304
Cash and Cash Equivalent, End of Period	<u>\$4,070,598</u>	<u>\$15,819,136</u>

Supplemental Cash Flow Information

Interest Paid	--	\$18,716
Income Taxes Paid	--	\$152,865

Supplemental Disclosure of Non-Cash Investing and Financing Activities

Common Shares Issued under Outside Directors Compensation Program	\$4,470	--
Conversion of receivable into common shares of Cognicase Inc.	\$2,000,000	--

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

The unaudited interim financial statements for the period ended May 31, 2002 should be read in conjunction with the consolidated financial statements for the year ended February 28, 2002 as the interim financial statements do not conform in all respects to the note disclosure requirements of generally accepted accounting principles for annual financial statements.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of their application as the most recent annual financial statements and they have been prepared on the "going concern" basis, which presumes that Microforum Inc. (the "Company") will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred significant operating losses over the past 24 months and its ability to continue as a going concern is dependent upon achieving and maintaining profitable operations, obtaining additional financing and successfully implementing the new business plan. The outcome of these matters cannot be predicted at this time. The financial statements have been prepared on a going concern basis and do not include any of the adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to continue in business.

In view of its financial position the Company filed for, and received, protection of the Ontario Superior Court Justice (the "CCAA Court") under the Companies' Creditors Arrangement Act ("CCAA") on January 29, 2002. Protection was first granted until February 28, 2002 and subsequently extended at various times until July 31, 2002.

2. ACQUISITIONS AND DIVESTITURES

There were no acquisitions by the Company during the year ended February 28, 2002 and/or during the three-month period ended May 31, 2002.

Divestitures during the year ended February 28, 2002 and the three-month period ended May 31, 2002 were as follows:

- **Strategy Marketing Business ("PPL")**

On April 26, 2002, the Company entered into a sale agreement at a nominal amount, effective as of April 15, 2002. In exchange for substantially all of the assets in the Strategic Marketing segment, the purchaser agreed to assume all obligations associated with retaining the existing employees of the Company, the Tomken Lease, equipment leases and vehicle leases related to that business. Assets of the disposed business consisted of equipment, permits, licences, books and records, contracts, intellectual property, certain accounts receivable and work-in-process. As part of the sale agreement, the Company retained certain accounts receivable and accounts payable.

- **Deployed Consulting Services ["DCS"]**

The DCS unit provides professional consulting services to customers, including business analysis, systems design, project management, and technical architecture review.

On January 28, 2002, the Company entered into a legally binding asset purchase agreement with Cognicase Inc. ["Cognicase"], with an effective date of January 31, 2002 and completed on March 1, 2002. The purchase price for the assets was \$2 million, which was satisfied by the issuance of 196,329 common shares of Cognicase to the Company at a price of \$10.187 per share, as determined by the procedure set forth in the agreement. As a result, a gain of \$2 million was recognized in the year. The common shares of Cognicase are traded on The Exchange under the stock symbol "COG" and are subject to a four-month restriction on resale ending July 20, 2002. As at May 31, 2002, a Cognicase common share has an approximate market value of \$7.10. On March 19, 2002, the Company received the Cognicase common shares in exchange for the assets provided for under the asset purchase agreement.

- **Internet (On-Line) Solutions Group ["ISG"]**

The ISG unit designs, develops and deploys customer centric Internet business solutions, including corporate intranets and extranets, management information systems, on-line storefronts, custom web-based applications and the integration of enterprise back-end systems with web front-ends. The Company closed this business unit in September 2001.

- **Enterprise Solutions Group ["ESG"]**

The ESG unit sells, implements and supports Navision, a third-party enterprise resource planning software for small and medium-sized enterprise clients. The Company closed this business unit in March 2002.

- **Media Replication Services ["MRS"]**

The MRS unit produces, duplicates and distributes media on various types of media, including DVDs, CD-ROMs, diskettes, videotapes, business card-CDs, and shape-CDs.

On January 14, 2002, the Company completed the sale of all of the assets comprising this business unit to three former members of management of this business unit for a purchase price of \$299,000 consisting of a cash payment of \$200,000 on closing and the delivery of a secured promissory note in the amount of \$99 payable over 18 months. On March 6, 2002, the Company received a cash payment of \$70,000 in exchange for the cancellation of this promissory note.

As a result of the above divestitures, Microforum operates a single business as at the end of the period, the CALMS ("Credit Adjudication Lending Management System") business.

3. CAPITAL STOCK

Authorized:

Unlimited preference shares
Unlimited common shares

Issued:

	NUMBER OF SHARES	AMOUNT
Balance, February 28, 2001	42,814,401	\$ 101,003,340
Issued on acquisition of Icom Alliance Incorporated	396,736	253,911
Cancelled in satisfaction of agreement between the Company and a former officer of the Company	(91,416)	(212,655)
Cancelled upon settlement with certain former principals of the Company	(23,890)	(182,042)
Reduction of stated capital		(73,577,171)
Issued upon surrender of warrants by former principals of P2P3	225,000	94,500
Issued under Outside Directors Compensation Plan	35,235	12,332
Issued under Restricted Share Plan	376,279	94,070
Balance, February 28, 2002	43,732,345	\$ 27,486,285
Issued under Outside Directors Compensation Plan	55,869	4,469
Balance, May 31, 2002	43,788,214	\$ 27,490,754

On June 7, 2002, the Company issued 1,000,000 common shares in connection with the April 8, 2002 agreement reached between the Company and the landlord of its corporate head office.

Stated capital reduction

On August 2, 2001, a special resolution was passed by the shareholders of the Company to eliminate the deficit of the Company at February 28, 2001, by reducing the stated capital by \$73,577,171. This deficit was accumulated in connection with the Company's historical operations and does not relate to the Company's current business mandate.

4. 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. Each set of options vests under circumstances, as described below.

a) Fixed Options:

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. As at May 31, 2002, 3,637,005

(February 28, 2002 – 5,067,273) options were outstanding at a weighed average exercise price of \$1.50 (February 28, 2002 - \$1.70).

b) Performance Options:

These options expire three years after their issuance and vest upon the Company's stock price reaching certain thresholds. As at May 31, 2002, 320,000 (February 28, 2002 – 395,000) options were outstanding at a weighed average exercise price of \$0.48 (February 28, 2002 - \$0.48).

5. SUBSEQUENT EVENTS

On June 7, 2002, and in accordance with the April 3, 2002 agreement previously executed between the Company and the landlord at 150 Ferrand Drive (the "Ferrand Drive Landlord"), the Company paid \$520,000 to the Ferrand Drive Landlord and issued 1,000,000 common shares to the Ferrand Drive Landlord. In accordance with the terms of this settlement, The Ferrand Drive Landlord agreed not to file a proof of claim in connection with the CCAA proceedings and approved of the terms and conditions of the Plan. The Ferrand Drive Landlord CCAA agreement was approved by the CCAA Court on April 12, 2002 pursuant to the Company's CCAA proceedings. The shares are subject to a twelve-month restriction on resale ending June 8, 2003.

On June 20 2002, the Company agreed to pay Deere Credit Services Inc. ("Deere") US \$100,000 and provide a royalty-free license to certain CALMS software previously developed by the Company in settlement of its dispute with Deere.

On June 25 2002, the Company received unanimous approval from both the secured and non-secured creditors to the Plan of Compromise. The Court is anticipated to sanction the Plan on or before July 12, 2002. As a result of the approval of the Plan, the Company's working capital has increased subsequent to the end of the current accounting period by approximately \$835,000 reflecting the acceptance and implementation of the Plan.

6. CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers and suppliers. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the potential costs and losses if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the financial position of the Company.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

Corporate Information

BOARD OF DIRECTORS

David Banks

*Chairman of the Board
Microforum Inc.*

François de Gaspé Beaubien

*Chief Executive Officer
Telemédia Corp.*

J. Efrim Boritz

*Professor
School of Accountancy
University of Waterloo*

Donald W. Paterson

*President
Cavandale Corporation
(corporate consultant)*

Steven H. Schofield

*President & Chief Executive Officer
Microforum Inc.*

David R. Shaw

*President & Chief Executive Officer
Knightsbridge Human Capital
Management Inc.*

Dr. Steven Small

*Founder
President & Chief Executive Officer
Capital Partners Corporation*

SENIOR MANAGEMENT/ LEADERSHIP TEAM

Steven H. Schofield

President & Chief Executive Officer

Michel Beland

Chief Financial Officer

Jason Meretsky

General Counsel & Secretary

CORPORATE HEADQUARTERS

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REGISTRAR & TRANSFER AGENT

Computershare Investor
Services

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Toronto, Ontario
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STOCK LISTING

The Company's common shares are traded on The Toronto Stock Exchange under the symbol MCF.

INVESTOR RELATIONS

Requests for a copy of the Annual Report or additional corporate materials should be directed to:

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