Annual Report 2003

Angoss Software Corporation

Corporate Information

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Registrar and Transfer Agent

Computershare Trust Company of Canada,
Toronto, Calgary, Montreal, Vancouver

Exchange

The Toronto Venture Exchange (CDNX)
trading symbol: “ANC”.

Quotes available at www.tsx.com.

Annual General and Special Meeting

ANGOSS shareholders and other interested parties are invited to attend the Corporation’s annual and special meeting at 4:30 pm EDT, Tuesday, April 20, 2004 at the TSE Conference Centre, Gallery of the TSX Broadcast Centre, 130 King Street West, Toronto, Ontario.

About this Report
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President's Message To Shareholders

Enclosed is our Annual Report for 2003.

Angoss provides market proven data mining and predictive analytics software tools analysts use to extract actionable knowledge from corporate data in marketing, sales, operations and other customer touching domains. During 2003 Angoss continued to extend its decade long track record of excellence in this software industry segment.

Our differentiators in the analyst software tools market – ease of use, flexibility, scalability and affordability – have helped us expand our customer base in some of the world's largest and most successful business organizations. Our users are passionate about our products.

These successes, together with our commitments to industry thought leadership, software engineering excellence, open standards, and innovation, have helped Angoss establish licensing and partnering relationships with some of the software industry's leading software vendors. These relationships are delivering value to our partners, to their customers, and to Angoss.

Our business strategy continued to evolve during 2003. This evolution reflects industry trends, the value potential of the range of business opportunities available, and related return on investment considerations. During 2003 we expanded our services organization. This helps our organization offer clients higher value end to end predictive analytics solutions that address business needs at an enterprise level. We also oriented our product management, research and development resources to these objectives. The result is a services and software based offering linked to client needs at an enterprise level.

During 2003 Angoss executed on four important initiatives that are intended to support this growth plan:

- completion of product development needed to support an enterprise predictive analytics capability,
- strengthening of our European direct sales and services organizations to support revenue growth in this important market,
- expansion of our North American senior management team, with more experienced hires in sales and solution delivery, and
- closing the financing needed to support execution of our growth strategy and to properly scale our organization for this next stage in its development.

In this annual report, we review the company's performance during 2003, the initiatives undertaken this year to address the company's growth opportunities, and our plans for 2004.

During 2003 we also dealt with a number of challenges that have influenced our business strategy. These developments have ranged from foreign exchange rate fluctuations to sales performance issues.

Our focus during 2004 will be on continuing to build our capability to support business growth – by expanding our sales, services and marketing resources to support the delivery of our solutions systematically, at an enterprise level, in our targeted industry verticals.

The primary driver of our growth strategy is the recognition that the desktop predictive analytics tools market does not support enterprise solution delivery, enterprise value and pricing, or the development of enterprise sales capability. Our primary business challenge for fiscal 2004 is to focus the efforts of the Company's personnel more effectively on successful evolution to a higher value software and services based offering that meets these criteria.

This evolution is not without risk. It requires a major transition in our traditional sales culture and approach. The initiatives we have undertaken during the fourth quarter of 2003 and first quarter of 2004 have been disruptive to some of our traditional sales approaches. This disruption is likely to continue during 2004 as we continue to refine our sales approach and focus on pursuing higher average value transaction opportunities in targeted industry segments.

However, our directors, management and employees are focused on executing this business strategy during 2004 as a foundation for the company's future growth plans. I am confident our team is up to this challenge.

On behalf of all shareholders, I would like to thank our employees for their efforts during 2003. I look forward to meeting those of you who can attend our shareholders meeting this year to review our accomplishments in 2003 and outline our plans for 2004.

Yours truly,

Eric Apps

Fiscal 2003 Results

We completed the year with flat top line revenues. Success in expanding specific client relationships, in developing our services capability, and in meeting partnership deliverables requirements, were offset by continued sales execution challenges in North America and negative foreign exchange rate trends.

We opened the year focused on business expansion in Europe, implementing our plan to develop a direct sales and services capability for that important market. Very quickly, however, the significant decline in the value of the US Dollar created revenue challenges in our core North American market.

Deferred revenues, which reflect contracted amounts due from clients and partners in future periods, showed substantial growth. To the extent the Company is successful in executing on its solution sales strategy in the coming year (which tends to involve payments in multiple periods against performance by the company of contracted deliverables), we expect this trend to continue.

Revenues from shrink-wrap software sales, such as Angoss analyst tools sales, are typically recognized at the time of sale. Solution sales, which typically involve a higher component of expert services, and also involve software deployment over extended periods, reflect longer term sales cycles, implementation cycles at client sites, and revenue recognition linked to phased solution delivery.

Our deferred revenue growth during 2003 reflects continued development of both strategic client and partnership relationships. These revenues will be recognized as deliverables are completed. These relationships are also creating a foundation for continued revenue growth and business expansion. We continue to deepen client and partner relationships and are actively working to replicate our client successes with targeted prospects.

Our organization continued to mature during 2003. Our product suite continues to expand. We have expanded our senior management team with experienced hires in sales and solution delivery. Our North American services organization continues to grow and delivery value to customers. We also strengthened our European operations with direct transfers of senior North American team resources to provide the foundation for growth of those capabilities in that market.

Throughout the year, we also continued to deal with North American sales challenges, primarily resulting from low average transaction values and inconsistent performance within our sales organization. During the latter part of the year, consolidation in the US financial services sector also continued to accelerate, delaying sales cycles for specific transactions with clients and prospects that had become subject to business consolidations.

We reported both an operating loss and net loss for fiscal 2003. The operating loss reflects below plan fourth quarter revenues, foreign exchange impacts throughout the year, and investments made in additional sales, services and engineering resources that are expected to improve our capabilities as an organization and result in higher fiscal 2004 revenues.

Our focus during 2004 will be on successful execution of our business strategy which involves use of our services and solution delivery capability to deliver higher value, end to end predictive analytics solutions to selected clients in targeted industry verticals. We will seek to achieve break-even to profitable operations, while continuing to expand our sales, services and solution delivery organizations to support this strategy.

Fiscal 2003 Operating Highlights and Recent Developments

Completion of Financing. To fund the Company's growth strategy, a $2.3 million 5 year preferred share financing in November, 2003 with a syndicate of private and management investors, finishing the year with its highest liquidity position since 1995. The proceeds of the financing will be used to fund further expansion of the Company's sales, expert services and marketing organizations, position the Company to more effectively pursue KnowledgeSTUDIO enterprise sales, support channel partner sales, and directly sell higher value, end-to-end predictive analytics solutions for existing and new clients in targeted industry verticals.

Angoss KnowledgeSTUDIO Enterprise Sales. As a result of expansion of existing client relationships, the Company completed 2003 with 600 deployed and trained users of KnowledgeSTUDIO® in three of the world's largest retail banking and consumer credit organizations. The Company believes that no other provider of commercial data mining workbench software has user deployments of similar scope, and that there are opportunities to continue to expand its relationship with these and similar clients. Key differentiators for selection of Angoss in Fortune 500 accounts and elsewhere continue to be ease of use, affordability, flexibility, scalability, and use of industry standard Microsoft and Internet technologies. The Company expects this trend to continue with existing and new clients in both North America and Europe during 2004. The Company is adopting a more structured enterprise licensing and expert services support program for these clients to accelerate these sales.

Channel Partners. During 2003 the Company delivered customized versions of its products to technology industry partners and licensees Siebel Systems and PeopleSoft Corporation and provided preliminary training on these applications to the sales consulting organizations of channel partners in North America and Europe. The Company also completed initial training and certification of 70 Protiviti risk consulting professionals in the use of Angoss KnowledgeSTUDIO in North America, Europe and Asia. The Company also completed integration of the Angoss data mining platform with MicroStrategy Intelligence Server. The Company expects that these channel partner relationships will create incremental product and services revenue opportunities during 2004 and is supporting channel partners in current sales initiatives.

Predictive Analytics Solutions. During the fourth quarter the Company completed development of Mining Manager 2.0, an innovative, web based data mining and predictive analytics solutions platform that offers packaged applications to deliver the business value benefits of predictive analytics to business users across the enterprise. Mining Manager is the software platform the Company will use to provide industry specific packaged predictive analytics applications and capability in 2004 and future years. Mining Manager, offered by ANGOSS and through industry partners Siebel Systems and PeopleSoft Corporation, provides robust, market proven predictive analytics analysis, reporting and real time scoring capabilities on a pure thin client architecture using pre-packaged industry specific templates for customer segmentation and profiling, profitability and value analysis, and credit scoring and risk management. Mining Manager also provides advanced capabilities to help financial services organizations meet emerging regulatory compliance requirements relating to the Basel New Capital Accord and related national regulatory initiatives in credit risk management and anti-money laundering areas. Through integration with channel partner applications Mining Manager also enables delivery of real time scoring, model deployment and next offer recommendation to the industry's leading enterprise performance management, customer relationship management and business intelligence application suites.

Growth Opportunities

During 2003 several developments resulted in a reassessment by the Company of growth opportunities in the data mining and predictive analytics industry. Key developments included the following:

- Company and peer group company revenue performance
- Analyst discussions, coverage and perspective on industry outlook and growth prospects
- Foreign exchange rate changes
- Consolidation in targeted industry verticals.

Many of these issues are related.

Industry analysts project relatively low growth rates for the data mining analytics workbench marketplace over the next several years. Simply put, the data mining analyst tools market is viewed – both within and outside the industry – to be characterized by market size issues, transaction value issues, software complexity and user deployment issues, and low value, commodity tools based sales models. The growing integration of database and data mining systems (Microsoft, and to a lesser extent Oracle and IBM) reflects structural change which will also increasingly affect traditional data mining markets over the next three to five years.

Based on these trends, and the Company's established client and partner relationships in its core industries, the Company is positioning its business to take advantage of higher value predictive analytics services and predictive analytics solutions based sales opportunities.

As we move into 2004 Angoss is positioning itself for its next growth stage, which involves delivering "end-to-end" predictive analytics capability. Many of our clients are in the early stages of their use of data mining and predictive analytics software. However, they also regard this capability as a strategic enterprise competency that will drive business value for them moving forward. We are fortunate as an organization to be working with many clients, both in North America and Europe, who do think this way.

During 2003 we completed initial foundation work for this strategy, completing a financing to fund some of the costs associated with this business evolution, bringing new senior sales management on board in North America, transferring senior personnel to Europe to support business expansion in that market, and validating our business strategy & plans with third party consulting professionals with expertise in enterprise software sales, product management and marketing.

Our business focus for 2004 and beyond is encapsulated in our "Discover. Predict. Act." ™ positioning statement. Organizations that successfully integrate predictive analytics as an integral component of their customer lifecycle management activities – in marketing, sales and risk – will be the market leaders in finance, telecom, retailing and other sectors over the next decade. Our company strategy and business development initiatives for 2004 are focused on further strengthening our strategic relationships with these customers.

Our 2003 initiatives have provided our board and management with a framework to benchmark our progress towards goals during 2004.

Management's Discussion and Analysis of Operating Results and Financial Position

Overview

ANGOSS Software Corporation ("ANGOSS" or the "Company") develops and licenses data mining and predictive analytics software solutions. ANGOSS solutions are used by modellers and business analysts primarily in the banking, insurance, telecommunications, health care and pharmaceuticals, retail, manufacturing and technology industries.

ANGOSS solutions are based on a common suite of integrated technologies. They consist of (i) analyst tools, used for data analysis and modelling; (ii) a scoring and decisioning server used for deploying data mining models to operational systems; (iii) web based task automation, collaboration and model management tools used to develop template-based pre-packaged predictive analytics applications; and (iv) developer tools, used for automating data mining tasks, integrating data mining functionality with enterprise systems and creating intelligent analytic applications.

ANGOSS products are sold directly and by licensees as integrated and embedded components of their application suites. ANGOSS supports its software through a professional services organization that offers implementation services for ANGOSS offerings and complementary data mining and predictive analytics capability on a project and outsourcing basis.

The following summary, discussion and analysis of operating results and financial position of ANGOSS should be read in conjunction with the audited financial statements and accompanying notes included with this Annual Report.

	2003	2002
Revenue	$ 4,541,717	$ 4,475,281
Gross margin	4,513,801	4,452,718
Sales and Marketing, General and Administration, Bad debts and Research and Development expenses	4,867,339	4,544,192
Loss from continuing operations before the following	(353,538)	(91,474)
Foreign exchange losses, Financing expenses, Amortization and Other income	(340,238)	(91,305)
Loss before income taxes and discontinued operations	(693,776)	(182,779)
Future income tax recovery (expense)	125,000	(125,000)
Discontinued operations – SmartWare business	-	574,127
Net (loss) income for the year	(568,776)	266,348
Basic and diluted (loss) earnings per share	$(0.01)	$0.01

Revenue

Revenue (other than interest income) consists of license revenues derived from direct software sales (sold solely on an annual basis and renewable annually), royalty revenues derived from partner software sales, and services revenues derived from data mining consulting, software engineering and solution implementation services.

License revenue is earned through the licensing of the right to use the Company's specific software products. Royalty revenues are derived from partner software sales in accordance with the provisions of the applicable license agreement. Services revenue is earned through fees paid by clients and partners for data mining consulting, engineering and implementation services provided by Angoss to support direct sales, customization and integration with partner offerings, and partner software sales. The annual license to use the Company's software provides the right to receive product upgrades during the license period (one year), if, as, and when available, as well as telephone and electronic web-based technical support. License and service revenue is earned directly and through partners that have licensed ANGOSS products for distribution to their clients. For further information on revenue elements and related revenue recognition policies and procedures see Note 1 to the Consolidated Financial Statements.

Revenue, other than interest income ("**product revenue**"), for the year ended November 30, 2003 totalled $4,527,151 (2002 - $4,467,634). Interest income in 2003, generated on surplus cash, was $14,566 (2002 - $7,647). Product revenue includes both **license revenues** and **service revenues** as described below.

In 2003, license revenues, including earned license renewals, represented 86.7% (2002 – 87.0%) of product revenue. Such revenue was derived primarily from direct sales to customers. During 2003, such revenues increased 1.0% over the prior year (7.4% increase in 2002). 18% growth in Europe was offset by a 1.1% decline in North American sales. In 2002, 18.3% growth in North America was offset by a 38.6% decline in Europe. During 2003, one customer accounted for more than 10% of revenue (2002 – 1 customer).

In 2003, services provided to customers and partners represented 13.3% of product revenue (2002 – 16.7%). While European service revenue grew by 29.9%, the 8.2% decline in North America resulted primarily from the deferral of non-refundable contracted revenue pending delivery of the contracted services.

The Company currently operates primarily in two geographic markets: North America and Europe. North American product revenues comprised 86.5% of product revenues in 2003 (2002 – 88.6%). European revenues comprised 13.5% of product revenues in 2003 (2002 – 11.4%). The increase in the relative proportion of European revenues reflected expansion of the Company's direct sales efforts in Europe as well as the effect of the decline of the US dollar, impacted North American revenues). Product revenues from markets outside of these geographic regions currently are not material to the company's operations and are included in North American revenues. During 2003 the Company established a relationship with a local market representative for the Australian and New Zealand markets. The Company expects that this relationship will be revenue generating during the 2004 fiscal year.

During 2003, the Company maintained its primary focus on the financial services industry. Approximately 53% of revenue in 2003 (2002 - 58%) was derived from clients in the financial services industry (comprising banking, insurance, brokerage, consumer credit and other financial services businesses). The balance of revenue was derived from clients in several industry segments, primarily telecommunications and media, as well as from healthcare and pharmaceuticals, manufacturing, technology, and retail industries.

During 2003, the Company was successful in expanding its relationships with existing clients and in establishing relationships with new clients, primarily through the licensing of its analyst tools and the delivery of related services. The Company successfully completed delivery of customized versions of its products to software industry partners and these products are expected to be generally available during the 2004 fiscal year. The Siebel Systems relationship provides for the integration and use of the Company's products with Siebel eBusiness applications and the payment of related licensing fees. The PeopleSoft relationship provides for the resale of the Company's products and the payment of related licensing fees. The Protiviti relationship provides for an internal use license for the Angoss's products covering certain designated risk management professionals and the payment of related solution development fees. The Informatica relationship provides for the resale of the Company's products and the payment of related licensing fees.

Cost of Goods Sold and Gross Profit

Cost of goods sold consists primarily of royalties and other direct production costs such as shipping, manuals and disks. Comparative cost of goods sold and gross profit are as follows:

	2003		2002	
Cost of Goods Sold	$ 27,916	0.62%	$ 22,563	0.50%
Gross Margin	$ 4,513,801	99.38%	$ 4,452,718	99.50%

The Company, from time to time, licenses third party software components for integration into the Company's products. To the extent that such arrangements provide for the payment of royalties or other amounts included within the cost of goods sold by the Company, such transactions would impact on cost of goods sold.

Operating Expenses

Operating expenses consist of salary and benefit expenses ("compensation"), sales and marketing expenses, administrative and general expenses, and the cost of research and development. Operating expenses increased by 7.1% in 2003 over 2002 levels (a 6.6% decline in 2002 over 2001).

	2003	2002
Operating expenses	$ 4,867,339	$ 4,544,192
Increase (decrease)	7.1%	(6.6)%

In 2003, salary and benefits ("compensation expenses') accounted for 75.6% (2002 – 76.6%) of operating expenses. Increases in compensation expenses reflected continued investment in sales, services and development personnel. Increases in non-compensation related operating expenses occurred primarily in the areas of sales and marketing, professional fees and certain non-recurring amounts more fully discussed below.

Sales and Marketing

In 2003, Sales and Marketing ("S&M") expenses were $2,328,294, an increase of 6.1% over the prior year (2002 - $2,193,744 – 9.2% decrease).

	2003		2002	
Compensation				
North America	$ 1,641,946	70.6%	$ 1,629,121	74.3%
Europe	231,139	9.9	156,667	7.1
Consulting fees	138,211	5.9	131,427	6.0
	2,011,296	86.4	1,917,2 15	87.4
Increase (decrease)	4.9%		(7.3)%	
Other				
North America	224,157	9.6	148,183	6.8
Europe	92,840	4.0	128,346	5.8
	316,997	13.6	276,529	12.6
Increase (decrease)	14.6%		(20.7)%	
	$ 2,328,294	100.0%	$ 2,193,744	100.0%
(Decrease) Increase	6.1%		(9.2)%	
Total S&M expenditures as a % of revenue	51.3%		49.0%	

In 2003, compensation made up 86.4% of Sales and Marketing ("S&M") expenses (2002 – 87.4) and represents compensation paid to direct sales, professional services and support services. Compensation is based on a combination of a base salary plus commissions. Commissions paid range from 3% to 13% depending upon the product or service sold. In 2003 compensation expense increased 4.9% (2002 – 7.3% decrease), reflecting in both years, fluctuating staff levels. In Europe, direct expenses increased as a result of expanding the sales team during the year. The contract with a third party consultant, whose compensation was based solely on commissions, was terminated during the year.

During the fourth quarter of 2003 the Company initiated significant changes in its sales organization. This transition is expected to continue to be implemented on a phased basis throughout the 2004 fiscal year. Initial changes have involved transfer of senior sales management and services personnel to Europe to strengthen European sales and expert services operations, hiring a Vice-President of North American Sales, and refocusing existing North American sales operations on higher growth revenue opportunities.

At the end of 2003, 13 people were assigned to this department in North America (2002 – 17). In Europe, 2 people (2002 – 2) were fully dedicated to this department and the compensation associated with one person was allocated between General and Administration ("G&A") and S&M in 2003 and 2002.

In 2003, as in prior years, non-compensation sales and marketing expenses related primarily to direct sales initiatives with existing clients and qualified prospects and several forms of marketing initiatives ranging from print and electronic media through to participation in seminars, conferences and trade shows, to direct marketing.

During 2003, 50.8% of other sales and marketing expenses were dedicated to building and maintaining relationships with our customers (2002 – 39.0%). In 2003 the increase was directly related to increased travel and on site customer visits with the expressed goal of better understanding our customer needs. The remaining portion of other sales and marketing expense was devoted to other marketing initiatives such as trade shows, advertising etc.. In 2003, the Company attended 3 trade shows (2002 – 4) in North America and 2 trades show in Europe (2002 – 2).

General and Administration

In 2003, G&A expenses were $1,328,726, an increase of 11.0% over the prior year (2002 -$1,197,211 – 1.6% decrease over 2001).

	2003		2002	
Compensation				
North America	$ 376,280	28.3%	$ 390,598	32.6%
Europe	77,102	5.8	92,453	7.7
	453,382	34.1	483,051	40.3
Increase (decrease)	(6.14)%		(14.2)%	
Other				
North America	730,815	55.0	594,980	49.7
Europe	144,529	10.9	119,180	10.0
	875,344	65.9	714,160	59.7
Increase	22.57%		4.7%	
$	1,328,726	100.0%	$ 1,197,211	100.0%
Increase (decrease)	11.0%		(1.6)%	
Total G&A expenditures as a % of revenue	29.3%		26.8%	

In 2003, compensation made up 34.1% of G&A expenses (2002 – 40.3%). In North America and Europe changes in compensation were primarily due to reductions in compensation rates. At the end of 2003, 5 people were assigned to this department (2002 – 5). In Europe, the compensation associated with one person was allocated between G&A and S&M in 2003 and 2002.

In 2003, other G&A expenses made up 65.9% of G&A expenses (2002 – 59.7%). Other G&A expenses are made of four main components – occupancy costs, professional fees, communication costs and ordinary course business expenses.

In 2003, occupancy costs accounted for 34.1% (2002 – 43.4%) of other G&A expenses. Occupancy costs decreased 3.9% in 2003 (increased 35.2% in 2002)). In 2003 the operating costs of the building in North America declined and, in Europe, the Company reduced the amount of space it occupied. The increase in 2002 was primarily related changes in business tax related to its head office.

In 2003, professional fees (legal, audit, director, recruiting, transfer agent, wire services) accounted for 26.8% (2002 – 26.5%) of other G&A expenses. In 2003, professional fees increased 23.9% (2002 – 15.4% decrease) primarily as a result of increased recruiting fees, audit fees and the costs of maintaining a public company.

In 2003, communication costs (primarily telephone and postage) accounted for 6.7% (2002 – 10.1%) of other G&A expenses. In 2003, capital taxes and related penalties and interest, previously under appeal and associated with predecessor companies were settled. Such amounts totaled 8.7% of other G&A expenses. In 2003, direct ordinary course business expenses of 23.8% of other G&A expenses (2002 – 20.0%), fluctuated as a function of staffing levels and market pricing for the goods and services acquired.

Research and Development

All research and development costs have been expensed as incurred.

Research and development comprises all engineering, quality assurance, support and related personnel resources associated with solution delivery. All research and development is conducted in North America. At the end of 2003 there were 19 staff in R&D (2002 – 17). Changes in the staffing levels near the end of 2002 accounted for the increase in compensation in 2003 and 2002.

Other development costs include training costs, supplies, subscriptions, software and other costs associated with R&D. The amount fluctuates from year to year depending upon the development cycle and the number of changes in personnel. In 2003, the increase in other development expenses reflected the costs associated with increasing and supporting staff. In 2002, there were fewer changes in personnel.

In 2003, the Company received approximately $213,122 on account of fiscal 2000 and 2001 Ontario Incentive Tax Credits ("OITC") of which $100,000 had previously been recognized. In addition, the Company recognized a further $50,000 on account of 2002 and 2003 OITC's. As at November 30, 2003, accounts receivable include $100,000 on account of OITC's. This amount represented approximately 48% of the amounts management otherwise estimates to be available on account of 2002 and 2003.

	2003		2002	
Compensation	$ 1,354,958	98.6%	$ 1,211,373	99.4%
Increase	11.9%		1.9%	
All other	18,483	1.4	6,864	0.6
Increase (decrease)	169.3%		(84.8)%	
Total expenditures before tax credit	1,373,441	100.0%	1,218,237	100.0%
Increase (decrease)	12.7		(1.3)%	
OITC	(163,122)		(150,000)	
	$ 1,210,319		$ 1,068,237	
Increase (decrease)	13.3%		(13.4)%	
Total R&D expenditures before tax credit as a % of revenue	30.2%		27.2%	

During 2003 the Company maintained an active product development agenda focused on extending the capabilities of the Company's key attributes – ease of use for analysts and rapid and cost-effective deployment of predictive analytics in enterprise environments. These initiatives included the following:

- KnowledgeSTUDIO | KnowledgeSERVER. Version 4.1 was released in the second quarter of 2003. We believe that these products lead the market in providing a market leading data mining analyst workbench environment in terms of ease of use, performance and cost of ownership.

- KnowledgeExcelerator. Version 4.1 of this product was released in the second quarter of 2003. It provides the basis for both direct and partner solution delivery opportunities in the area of data exploration and analysis for business users.

- Mining Manager. During the fourth quarter the Company completed development of Mining Manager 2.0, an innovative, web based data mining and predictive analytics solutions platform that offers packaged applications to deliver the business value benefits of predictive analytics to business users across the enterprise.

- Channel Partners. During 2003, the Company delivered customized versions of its products to technology industry partners and licensees Siebel Systems and PeopleSoft Corporation. The Company also completed integration of the Angoss data mining platform with MicroStrategy Intelligence Server.

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Amortization

Amortization of capital assets constituted 100% of amortization in 2003 (87.9% in 2002). Amortization of acquired software accounted for the balance in 2002.

Other Income

In 2003, proceeds from the settlement agreement with TRIFOX, net of collection fees, were $58,045 (2002 - $79,136). See note 12 to the 2003 consolidated financial statements.

Foreign Exchange

On November 30, 2003, the Canadian dollar was worth US$1.2973, down from US$1.5654 on November 30, 2002. In December 2002, the average exchange rate was US$1.5593. In November 2003, the average was US$1.3126. In fiscal 2003, the strengthening of the Canadian dollar resulted in foreign exchange losses of $317,252 (2002 – losses of $56,581). In June 2003 the Company increased the average price of its products by 10.5% and further increases may be implemented in 2004.

Discontinued operations - SmartWare

Effective December 31, 2001, after completing the amalgamation outlined in note 1 to the consolidated financial statements, the Company completed a restructuring of the SmartWare business operations and sold the SmartWare business to a newly incorporated US company, called SmartWare Corporation [“SW”]. See note 13 of the 2003 consolidated financial statements.

Financial Condition and Liquidity

To fund the expansion of its sales and marketing capability and to pursue higher growth business opportunities, the Company closed a $2.3 million 5-year preferred share financing in November 2003 with a syndicate of private and management investors, finishing the year with its highest liquidity position since 1995. The proceeds of the financing will be used to reposition the Company to more effectively pursue KnowledgeSTUDIO enterprise sales, fund expansion of the Company’s expert services organization, support channel partner sales, and sell directly higher value, end-to-end predictive analytics solutions for existing and new clients in targeted industry verticals.

Cash and cash equivalents as at November 30, 2003 were $3,261,259 (2002 - $661,710). At the year-end, accounts receivable were $1,418,134 (2002 – $1,420,305)

Accounts payable and accrued liabilities as at November 30, 2003 were $254,602 (2002 - $316,732) which declined $62,130, or 19.6% from 2002 (a 34.7% decline in 2002), reflecting a reduction in trade payables.

As at November 30, 2003, the Company's working capital was $2,990,081 compared to $999,076 as at November 30, 2001. The increase is primarily the result of the net increase in cash raised through the preferred share financing.

As at November 30, 2003, deferred revenue, current and long-term totalled $1,738,430 (2002 - $952,163), an increase of 82.6%. The growth in deferred revenue represents growth in license renewals and commitments for ANGOSS services to be delivered to customers and partners in future periods.

At November 30, 2003, the Company had share capital of $13,685,431 (2002 - $13,276,531) and a deficit of $13,092,300 (2002 - $12,523,524). The increase in share capital is attributable to the exercise of stock options at various times throughout 2003, a private placement and the value assigned to warrants associated with the preferred share financing (see note 9 to the consolidated financial statements). The increase in the deficit of $568,776 is attributable to the net loss in 2003 (2002 decrease attributable to net income of $266,348).

During 2003 the Company received $246,600 pre-commercialization assistance from the National Research Council of Canada, under the Industrial Research Assistance Program/Technology Partnerships Canada (IRAP-TPC) with respect to the Mining Manager software. In connection with the funding the Company has agreed to provide a royalty equal to 1.07% of the Company's product sales which will commence to be payable during the 2004 fiscal year (see note 14 to the 2003 consolidated financial statements.

Outlook

A number of initiatives were undertaken at the beginning of the fourth quarter of 2003 to expand European operations and reposition the Company to pursue higher value services and solutions sales to address the marketing and credit risk management analytics needs of our core financial services and telecom clients. Although disruptive in the near term, these initiatives are expected to provide a stronger platform for future growth. The Company's overall business strategy for 2004 is to continue to focus on revenue growth. However, the business climate and outlook for 2004 remains uncertain and broader economic factors may impact the Company's overall plans.

In the context of the Company's overall objectives, the Company intends to continue to manage its business to enable the hiring of additional personnel in several areas to support its growth objectives, provided that profitability and cash flow objectives are met. During 2004, expansion of the Company's personnel is expected to focus primarily on the hiring of additional qualified personnel in sales, services and solution delivery. This expansion is expected to occur primarily in North America and in Europe.

Forward-looking Statements

Some of the statements contained in this Annual Report including, without limitation, as they may relate to financial and business prospects and financial outlook of the Company, may be forward looking statements which reflect management's expectations regarding the Company's future growth, results from operations, performance and business prospects and opportunities. Wherever possible, words such as “anticipate”, “believe”, “expect”, “intend” and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including but not limited to, changes in the general economic and market conditions. Although forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, the Company cannot assure that actual results will be consistent with these forward looking statements. These forward-looking statements are made as of the date hereof and the Company assumes no obligation to update or revise them to reflect new events or circumstances until the effective date of the Company's future reports filed with the applicable securities regulatory authorities.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **ANGOSS Software Corporation** and all information in the Annual Report are the responsibility of management and have been reviewed and approved by the Board of Directors. The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. Financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies which management believes are appropriate for the Company are described in the notes to the financial statements.

The Board of Directors carries out its responsibility for the financial statements and other financial information in this Annual Report principally through its Audit Committee currently consisting of three members, all of whom are unrelated, non-management Directors. The Audit Committee meets periodically with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss the financial statements and financial reporting matters.

Ernst & Young LLP, Chartered Accountants, were appointed as the Company's external auditors by the Company's shareholders to independently audit the financial statements in accordance with Canadian generally accepted auditing standards and to express to the shareholders their opinion on the financial statements.

Eric Apps
President

Lon Vining
Chief Financial Officer

January 20, 2004.

AUDITORS' REPORT

To the Shareholders of
ANGOSS Software Corporation

We have audited the consolidated balance sheets of **ANGOSS Software Corporation** as at November 30, 2003 and 2002 and the consolidated statements of income (loss), deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at November 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
January 20, 2004.

Ernst & Young LLP
Chartered Accountants

ANGOSS Software Corporation

CONSOLIDATED BALANCE SHEETS

As at November 30
(stated in Canadian dollars)

	2003	2002
ASSETS		
Current		
Cash and cash equivalents	**$ 3,261,259**	$ 661,710
Accounts receivable *[notes 2 and 14]*	**1,418,134**	1,420,305
Prepaid expenses	**77,285**	100,278
Total current assets	**4,756,678**	2,182,293
Deferred financing costs *[note 6]*	**85,042**	—
Capital assets, net *[note 3]*	**121,069**	94,854
	$ 4,962,789	$ 2,277,147
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 254,602**	$ 316,732
Dividends payable on Preferred shares *[note 6]*	**7,499**	—
License fees payable	**6,302**	5,245
Current portion of repayable contribution *[note 14]*	**47,265**	—
Current portion of deferred revenue	**1,450,929**	861,240
Total current liabilities	**1,766,597**	1,183,217
Future tax liabilities *[note 9]*	**125,000**	250,000
Repayable contribution agreement *[note 14]*	**199,335**	—
Deferred revenue	**287,501**	90,923
Preferred shares *[note 6]*	**1,991,225**	—
Total liabilities	**4,369,658**	1,524,140
Commitments and contingencies *[notes 4 and 5]*		
Shareholders' equity		
Share capital *[note 7]*	**13,685,431**	13,276,531
Deficit	**(13,092,300)**	(12,523,524)
Total shareholders' equity	**593,131**	753,007
	$ 4,962,789	$ 2,277,147

See accompanying notes

On behalf of the Board:

John Gardner
Director

Eric Apps
Director

ANGOSS Software Corporation

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years ended November 30
(stated in Canadian dollars)

	2003	2002
Revenue *[note 8]*	**$ 4,541,717**	$ 4,475,281
Cost of goods sold	**27,916**	22,563
	4,513,801	4,452,718
Costs and expenses		
Sales and marketing	**2,328,294**	2,193,744
General and administration	**1,328,726**	1,197,211
Bad debts	**—**	85,000
Research and development expenditures, net *[note 14]*	**1,210,319**	1,068,237
	4,867,339	4,544,192
Loss from continuing operations before the following	**(353,538)**	(91,474)
Other income *[note 12]*	**58,045**	79,136
Amortization of capital assets	**(71,092)**	(108,341)
Foreign exchange loss	**(317,252)**	(56,581)
Financing fees, dividends on Preferred shares and interest	**(9,939)**	(5,519)
Loss from continuing operations before income taxes	**(693,776)**	(182,779)
Future income tax recovery (expense) *[note 9]*	**125,000**	(125,000)
Discontinued operations – SmartWare business *[note 13]*	**—**	574,127
Net (loss) income for the year	**$ (568,776)**	$ 266,348
Basic and diluted earnings (loss) per share [NOTE 7]	**$ (0.01)**	$ 0.01
Weighted average number of common shares outstanding [NOTE 7]		
Basic	**38,606,666**	38,418,306
Diluted	**38,606,666**	39,042,985

See accompanying notes

CONSOLIDATED STATEMENTS OF DEFICIT

Years ended November 30
(stated in Canadian dollars)

	2003	2002
Deficit, beginning of year	**$(12,523,524)**	$(12,789,872)
Net income (loss) for the year	**(568,776)**	266,348
Deficit, end of year	**$(13,092,300)**	$(12,523,524)

See accompanying notes

ANGOSS Software Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30
(stated in Canadian dollars)

	2003	2002
OPERATING ACTIVITIES		
Net income (loss) for the year	**$ (568,776)**	$ 266,348
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities		
Future income tax	**(125,000)**	125,000
Gain on sale of SmartWare business	—	(535,554)
Amortization of capital assets	**71,092**	108,341
Amortization of deferred financing costs	**715**	—
Interest accretion on Preferred shares	**1,725**	—
Bad debts	—	85,000
Deferred lease inducements	**—**	(9,963)
Cash provided by (used in) continuing operations	**(620,244)**	39,172
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	**2,171**	(537,149)
Decrease (Increase) in prepaid expenses	**22,993**	(8,077)
Increase (decrease) in accounts payable and accrued liabilities	**(62,130)**	(168,009)
Increase in deferred revenue	**786,267**	359,547
Increase in dividends payable on Preferred shares	**7,499**	
Increase in license fees payable	**1,057**	7,892
	137,613	(306,624)
Cash provided by discontinued operations	—	108,978
Cash provided by (used in) operating activities	**137,613**	(197,646)
INVESTING ACTIVITIES		
Purchase of License Agreement	**—**	(159,280)
Purchase of capital assets	**(97,307)**	(10,065)
Cash used in investing activities	**(97,307)**	(169,345)
FINANCING ACTIVITIES		
Repayment of term loan	**—**	(33,334)
Issuance of Preferred shares	**2,300,000**	—
Preferred share issuance costs	**(85,757)**	—
Repayable contributions	**246,600**	—
Issuance of common shares on exercise of options	**42,775**	16,750
Issuance of private placement common shares	**50,000**	—
Repayment of share purchase loans	**5,625**	62,525
Repayment of obligations under capital leases	**—**	(22,035)
Cash provided by financing activities	**2,559,243**	23,906
Net increase (decrease) in cash and cash equivalents during the year	**2,599,549**	(343,085)
Cash and cash equivalents, beginning of year	**661,710**	1,004,795
Cash and cash equivalents, end of year	**$ 3,261,259**	$ 661,710
Supplemental cash flow information		
Interest paid	**$ —**	$ 5,519

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2003
[in Canadian dollars unless otherwise indicated]

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles [“GAAP”]. The significant accounting policies are as follows:

Basis of Consolidation

On December 31, 2001, ANGOSS Software Corporation and its wholly-owned subsidiary SmartWare Corporation amalgamated. The amalgamated company is called ANGOSS Software Corporation [“ANGOSS” or the “Company”] and it has adopted the by-laws and articles of the Company.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, ANGOSS Software Limited, incorporated in the United Kingdom; ANGOSS Software International (U.S.A.), Inc., incorporated under the laws of the State of Wyoming, U.S.A and the ANGOSS Incentive Trust, a business trust governed by the laws of Ontario *[note 7]*. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include such items as bankers’ acceptances carried at cost with remaining maturities at acquisition of 90 days or less.

Financial Instruments

The fair values of financial instruments approximate their carrying values except as otherwise disclosed in these consolidated financial statements.

Deferred Financing Costs

Costs incurred in connection with securing the preferred share financing have been deferred and amortized over the term of the preferred shares.

Capital Assets

Capital assets are initially recorded at cost. Amortization is provided at rates designed to amortize the cost of capital assets over their estimated useful lives at the following rates and methods:

Computer equipment	Straight-line over three years
Duplication equipment	30% declining balance
Equipment under capital lease	Straight-line over lease term
Office furniture and equipment	20% declining balance
Computer software	Straight-line over two years
Leasehold improvements	Straight-line over lease term

Revenue Recognition

Revenue consists of the sale of specific Company products and their related license revenue (sold solely on an annual basis and renewable annually), services revenue, partner revenue and interest income earned.

License revenue is earned through the licensing of the right to use the Company's specific software products. Services revenue is earned through fees for data mining consulting, engineering and user training services. The annual license to use the Company’s software provides the right to receive product upgrades during the license period (one year), if, as, and when available, as well as telephone and electronic web-based technical support. License and service revenue is earned directly and through partners that have licensed ANGOSS products for distribution to their clients. Generally, license revenue earned through partners is based on the Company’s share of the revenue earned by the partner from their sales of the Company’s product to their customer. Services revenues earned from partners are based on their use of the Company’s services.

The Company does not recognize revenue for agreements with rights of return, refundable fees, cancellation rights or acceptance clauses until such rights to return, refund or cancel have expired or acceptance has occurred.

When the Company's software and related license is sold with other services, the Company allocates the total fee to the various elements based on the relative fair values of the elements specific to the Company. The Company determines the fair value of each element in the arrangement based on vendor-specific objective evidence ["VSOE"] of fair value. For software licenses with a fixed number of licenses, VSOE of fair value is based upon the price charged when sold separately, which is in accordance with the Company's standard price list. The Company's standard price list specifies prices applicable to each level of volume purchased and is applicable when the products are sold separately.

Revenue allocated to licensed software is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, no significant obligations by the Company with regard to implementation remain, and collection of a fixed or determinable fee is probable. The Company considers all payments outside the Company's normal payment terms, including all amounts due in excess of one year, to not be fixed and determinable, and such amounts are recognized as revenue when the fee is collected. For software arrangements where the Company is obligated to perform professional services for implementation, the Company does not consider delivery to have occurred or customer payment to be probable of collection until no significant obligations with regard to implementation remain. Generally, this would occur when substantially all service work has been completed in accordance with the terms and conditions of the customer's implementation requirements but may vary depending on factors such as an individual customer's payment history or order type [e.g., initial versus follow-on].

Revenue allocated to data mining consulting, engineering and user training elements is recognized as the services are performed.

Renewal agreements are sold solely on an annual basis and are generally priced based on a percentage of the current product list price. Certain customers can acquire multiple annual renewal licenses and such licenses must be paid in advance. Revenue from renewal agreements is recognized ratably over the term of the agreement, which is one year.

Deferred revenue includes amounts received from customers in excess of revenue recognized.

Leases Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. Assets recorded under capital leases are amortized on a straight-line basis over the term of the lease that is the estimated useful life of the assets. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Research and Development Research costs are expensed in the year incurred. Development costs are expensed in the year incurred unless the development project meets Canadian generally accepted accounting criteria for deferral and amortization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2003
[in Canadian dollars unless otherwise indicated]

Foreign Currency Translation

Accounts of integrated subsidiary operations which are stated in currencies other than Canadian dollars are translated as follows:

Monetary assets and liabilities - at year-end rates;
Non-monetary assets - at historical rates; and
Revenue and expenses - at the average exchange rate for the year, except that the amortization of assets is translated at the same exchange rate as the asset to which it relates.

Exchange gains and losses on translation are included in income.

The monetary assets and liabilities of ANGOSS that are denominated in foreign currencies are translated at the rate of exchange in effect at the consolidated balance sheet dates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. Exchange gains or losses on translation are included in income.

Stock-Based Compensation Plans

The Company has three stock-based compensation plans, which are described in note 7. No compensation expense is recognized for these plans when stock or stock options are granted to employees. Any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital. Stock issued under a plan that has not vested is repurchased from employees at the original price paid by the employee.

Income Taxes

The Company uses the liability method of tax allocation for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual amounts may differ from those estimates.

Earnings per share

Earnings per share are calculated based on net income (loss) attributable to common shareholders. Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury method. The dilutive effect of convertible securities is determined using the “if-converted” method.

2. FINANCIAL INSTRUMENTS

Credit Risk

The Company manages its credit risk with respect to accounts receivable by dealing primarily with creditworthy customers and, where feasible, by billing in advance of rendering services. As at November 30, 2003, three customers represented 45.7% of the balance. Subsequent to the year-end, 46% of such amounts had been collected. As at November 30, 2002, two customers and a research and development tax credit recoverable *[note 14]* represented 37.5% of the balance.

As at November 30, 2003, the allowance for doubtful accounts totalled $106,915 [2002 - $107,170].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2003
[in Canadian dollars unless otherwise indicated]

Currency Risk The Company sells software and services in both Canadian and foreign currencies that gives rise to the risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange. Certain purchases of services and equipment are also made in non-Canadian currencies. The Company uses both its natural hedge to mitigate, to the extent possible, and will, from time to time, enter into foreign exchange forward contracts to manage foreign exchange risk on US cash held as term deposits and license renewal billings. Gains and losses on these hedging instruments are recognized in the same period as, and as part of, the hedged transaction. The Company does not enter into foreign exchange contracts for speculative purposes. As at November 30, 2003, the Company has no outstanding foreign exchange forward contracts.

As at November 30, 2003, 27.0% [2002 – 51.4%] of cash and cash equivalents and 79.5% [2002 – 80.1%] of accounts receivable are denominated in foreign currencies. As at November 30, 2003, 17.9% [2002 – 28.0%] of accounts payable and accrued liabilities and license fees payable are denominated in foreign currencies.

Fair Value The carrying values of accounts receivable, accounts payable and accrued liabilities, license fees payable and the Preferred shares approximate their fair values due to the relatively short periods to maturity of these financial instruments. The aggregate fair value of the Preferred shares, calculated at the current market rate of interest available to the Company for the same or similar financial instrument, approximates its current carrying value.

3. CAPITAL ASSETS

Capital assets consist of the following:

	2003		
	Cost	**Accumulated Amortization**	**Net Book Value**
Computer equipment	**$ 598,070**	**$ 527,539**	**$ 70,531**
Duplication equipment	**7,431**	**6,521**	**910**
Equipment under capital lease	**229,079**	**229,079**	**—**
Office furniture and equipment	**164,860**	**139,439**	**25,421**
Computer software	**238,621**	**214,414**	**24,207**
Leasehold improvements	**228,796**	**228,796**	**—**
	$ 1,466,857	**$ 1,345,788**	**$ 121,069**

	2002		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 539,350	$ 482,569	$ 56,781
Duplication equipment	7,431	6,130	1,301
Equipment under capital lease	229,079	229,079	—
Office furniture and equipment	163,442	132,900	30,542
Computer software	200,030	193,800	6,230
Leasehold improvements	228,796	228,796	—
	$ 1,368,128	$ 1,273,274	$ 94,854

4. CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable under litigation and claims from customers, suppliers, former employees and potential unfavourable tax assessments. Management believes that adequate provision has been recorded in the accounts where required, including any reserves for potential unfavourable tax assessments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2003
[in Canadian dollars unless otherwise indicated]

5. COMMITMENTS

Capital Lease During the 2002 year, the Company retired the capital lease at the face value of the remaining lease.

Operating Leases The total future minimum annual lease payments under operating leases for premises and equipment are as follows:

2004	$ 129,850
2005	133,410
2006	143,392
2007	32,758
2008	7,724
	$ 447,134

Future minimum annual payments do not include the Company's share of premise business and realty taxes and other operating costs estimated to be $168,000 per year plus any inflationary adjustments that may be required under the terms of the lease. Premises in the United Kingdom are leased on a month-to-month basis. The estimated expense for 2004, not included above, is $72,000.

6. PREFERRED SHARES

	2003	2002
Authorized		
Unlimited Class A Preferred shares, issuable in series		
Issued		
2,300,000 Class A Preferred shares, Series 1	**$ 1,991,225**	—

Series 1 In November 2003, the Company issued 2,300,000 Class A Preferred shares, Series 1 ("Series 1") and 3,450,000 warrants to acquire 3,450,000 common shares of the Company at $0.30 per common share for total proceeds of $2,300,000. The preferred shares are carried at their stated value of $2,300,000 less the fair value assigned to the warrants of $310,500 plus accumulated interest on the Preferred shares. The non-cash interest expense in 2003 was $1,725.

The legal and financial advisor fees associated with the issue, $85,757, have been deferred and amortized over five years from the date of issue. The financial advisor invested $50,000 of the fees it received in a private placement of common shares *[note 7]* completed in conjunction with the financing.

Terms and conditions attached to the Series 1 are as follows:

(i) non-voting;
(ii) bear a fixed, preferential, cumulative cash dividend at the rate of 7%, payable quarterly
(iii) redeemable in whole anytime after November 14, 2005 with a minimum annual redemption of $575,000 commencing November 14, 2005, and
(iv) in the event the Company fails to pay a dividend or redeem the minimum annual amount, the entire amount outstanding at the time of default becomes due and payable immediately.

[in Canadian dollars unless otherwise indicated]

In accordance with the Canadian Institute of Chartered Accountants ["CICA"] recommendations, a portion of the Series 1 has been allocated to shareholders equity as the Series 1 contain both a liability and equity element arising from the warrants attached. The method used to determine the equity component of the Series 1 is detailed in note 7 – Warrants. The difference the Series 1 principal ($2,300,000) and the value assigned to the warrants ($310,500) is then amortized as interest expense. The proceeds received from the issuance of the Series 1 less the equity component plus interest expense has been classified as a long-term liability. The effective interest rate for the liability component is 11.9%.

7. SHARE CAPITAL

Share capital consists of the following:

	2003	2002
Authorized		
Unlimited common shares		
Preferred shares *[note 6]*		
Issued		
39,079,930 common shares [2002 - 38,502,096]	**$ 13,374,931**	$ 13,276,531
3,450,000 warrants [2002 - Nil]	**310,500**	—
	$ 13,685,431	$ 13,276,531

Issued Common Shares

During 2003, the Company issued 327,834 common shares on the exercise of stock options at prices ranging from $0.10 to $0.20 per common share. A further 250,000 common shares at $0.20 were issued to the Company's financial advisor in connection with the preferred share financing.

During 2002, the Company issued 124,999 common shares on the exercise of stock options at prices ranging from $0.13 to $0.15 per common share.

Warrants

On November 14, 2003, the Company issued 3,450,000 warrants to purchase 3,450,000 common shares of the Company at Cdn$0.30 per share in connection with the issue of the Class A Preferred Shares, Series 1 issued on that date *[note 6]*. The warrants expire November 13, 2008. As at November 30, 2003, no warrants had been exercised.

The fair value of the warrants, $310,500, was estimated at the date of their issue using the Black-Scholes option pricing model with the following assumptions:

Weighted-average risk-free interest rate	4.2%
Dividend yield	0.0%
Weighted-average volatility factors of the expected market price of the Company's common shares	55.0%
Weighted-average expected life of the warrants (in years)	3.5

On February 25, 2002, the Company issued 100,000 warrants to purchase 100,000 common shares of the Company at US$0.35 per share in connection with a licensing agreement signed on that date. The warrants are not exercisable until the software has been released and expires five years thereafter. As at November 30, 2003, the software was not released. No value has been assigned to the warrants.

Stated Capital

The legal stated value of ANGOSS common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital of the common shares is $19,290,510 [2002 - $19,173,235].

[in Canadian dollars unless otherwise indicated]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The legal stated value of ANGOSS warrants differs from the carrying value reflected in these consolidated financial statements. The legal stated capital of the warrants shares is $0.01.

Stock-Based Compensation Plans

At November 30, 2003, the Company has three stock-based compensation plans, which are described below.

ANGOSS Incentive Trust [“AIT”]

The AIT was capitalized in 1999 with $165,000 in the form of a loan from the Company [the “Loan”]. The AIT used these funds to acquire a convertible note [the “Note”] from a third party. The Note was sold to certain officers and employees of the Company in exchange for non-interest bearing promissory notes [the “Employee Notes”] and cash. The cash was used to repay amounts due to the Company. Effective August 31, 1999, the Note was converted into 1,650,000 common shares of the Company in accordance with its original terms. Obligations under the Employee Notes are secured by such common shares.

As at November 30, 2003, the AIT holds nil common shares [2002 – nil] in trust for future allocation, holds Employee Notes of $31,850 [2002 - $37,475], and owes the Loan of $31,850 to the Company. The Employee Notes have been netted against share capital. In January 2004, the remaining Employee Notes and the Loan [$31,850] were repaid.

Employee Share Purchase Plan

On April 23, 2002, shareholders of the Company approved the adoption and implementation by the Company, in its capacity as trustee, of an employee share purchase plan [“ESPP”] for eligible employees. Under the ESPP such employees are entitled to elect to receive common shares of the Company on account of up to 15% of their base and bonus compensation otherwise payable determined annually. These shares may, at the option of the trustee, be acquired in the market or from treasury based on the prevailing market prices of the common shares at the time of such purchase. As at November 30, 2003, no shares had been acquired.

Stock Option Plan

The Company may grant to employees, officers, directors and consultants options to acquire up to 5,700,000 common shares of the Company. The exercise price of each option equals the market price of the Company’s common stock on the date of the grant and an option’s maximum term is five years. Vesting terms and conditions are determined by the Board of Directors at the time of the grant. A summary of the Company’s Stock Option Plan as at November 30, 2003 and 2002 and changes during the years ended on those dates is presented below:

	2003		2002	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at beginning of year	**2,885,623**	**$0.22**	3,770,766	$0.42
Granted	**2,772,500**	**0.13**	796,500	0.16
Exercised	**(327,834)**	**0.13**	(124,999)	0.13
Cancelled	**(660,650)**	**0.16**	(1,556,644)	0.65
Outstanding at end of year	**4,669,639**	**$0.22**	2,885,623	$0.22
Options vested, at end of year	**1,982,118**		2,042,227	

In January 2004, 1,050,000 options, which were to have vested upon achieving revenue and income targets for fiscal 2003 and were held by certain employees and officers, were cancelled.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2003
[in Canadian dollars unless otherwise indicated]

On July 23, 2002, the Company received approval from the TSX Venture Exchange [the "Exchange"] to permit repricing of certain outstanding options (up to 2,015,600) on the basis of a formula which provided for the repricing of options issued and outstanding in favour of participating employees, officers and directors [collectively the "personnel"] with an exercise price in excess of $0.20 to $1.51, and a reduction in the number of options issued and outstanding to such participating personnel. No other terms or conditions of the options are affected. The re-pricing of the directors' options was approved by the shareholders.

As a result of this approval, twenty-four (24) personnel holding 1,122,100 options and 162,500 options held by three (3) outside directors, all with exercise prices greater than $0.20, elected such repricing option, resulting in the cancellation of 673,260 and 97,500 of such options respectively. Ten personnel (10), including two officers, one of whom is a director, holding 731,000 options at prices ranging from $0.25 to $0.50, declined to reprice their options.

The following table summarizes information about the stock options outstanding as at November 30, 2003:

Exercise price as at November 30, 2003	Options outstanding at November 30, 2003	Remaining Contractual life [months]	Options vested at November 30, 2003
0.12	485,000	51	—
0.13	675,000	52	—
0.15	691,666	9	691,666
0.15	394,833	43	307,284
0.19	977,500	54	—
0.20	394,640	13 to 37	365,086
0.25	400,000	58	—
0.33	185,000	31	171,332
0.33	210,000	13	210,000
0.35	66,000	29	46,750
0.50	150,000	27	150,000
1.30	40,000	21	40,000
	4,669,639		1,982,118

Earnings (loss) per share

In accordance with the CICA's Section 3500, *"Earnings Per Share"*, earnings (loss) per share are computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Earnings (loss) per share, for all years presented, were calculated using the weighted average number of common shares outstanding during each year as follows:

Basic earnings (loss) per share	2003	2002
Net income (loss)	**$ (568,776)**	$ 266,348
Weighted average number of common shares outstanding	**38,606,666**	38,418,306
Basic earnings (loss) per share	**$(0.01)**	$0.01
Diluted earnings (loss) per share		
Net income (loss)	**$ (568,776)**	$ 266,348
Weighted average number of common shares outstanding	**38,606,666**	38,418,306
Dilutive effect of stock options	—	624,679
Adjusted weighted average number of common shares outstanding	**38,606,666**	39,042,985
Diluted earnings (loss) per share	**$(0.01)**	$0.01

For 2003, all warrants and stock options were excluded from the calculation of diluted earnings (loss) per share because the effect would have been anti-dilutive.

[in Canadian dollars unless otherwise indicated]

Effective December 1, 2002 the Company adopted the CICA's recommendations in Section 3870, *"Stock-based Compensation and Other Stock-based payments"*. As permitted by CICA Section 3870, the Company has applied this change prospectively for new awards granted on or after December 1, 2002. The Company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. However, direct awards of stock to employees and stock and stock option awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock are determined by the quoted market price of the Company's stock and the fair value of stock options are determined using the Black-Scholes option pricing model. In periods prior to December 1, 2002, the Company recognized no compensation when stock or stock options were issued to employees. Pro forma information regarding net income is required and has been determined as if the Company had accounted for its employee stock options granted after November 30, 2002 under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for 2003:

Weighted-average risk-free interest rate	4.21%
Dividend yield	0.0%
Weighted-average volatility factors of the expected market price of the Company's common shares	107%
Weighted-average expected life of the options (in years)	3.5

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma loss under Canadian GAAP would be increased by $62,668 for the twelve months ended November 30, 2003. Basic and diluted earnings per share figures would have been reduced by $nil and $nil respectively. The weighted average fair value of stock options granted during the twelve months ended November 30, 2003 was $0.08.

8. MAJOR CUSTOMERS

During 2003, one customer (2002 – one customer) accounted for more than 10% of revenue.

9. INCOME TAXES

Future Income Taxes

Future income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities as at November 30 are as follows:

Current Future Tax Assets

	2003	2002
Non-capital loss carryforward benefit		
North America	**$ 590,000**	$ 216,000
Europe	**549,000**	574,000
Investment tax credit carry forward	**1,124,000**	1,165,000
Undeducted SR&ED pool inducements	**1,007,000**	755,000
Book depreciation in excess of CCA	**233,000**	312,000
	3,503,000	3,022,000
Valuation reserve	**(3,222,000)**	(2,921,000)
	281,000	101,000

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[in Canadian dollars unless otherwise indicated]

Current Future Tax Liabilities

Investment tax credit	**406,000**	351,000
	406,000	351,000

Net Future Tax Liabilities

	$ 125,000	$ 250,000

The Company has determined that the realization is not more likely than not and therefore a valuation allowance against future income tax assets has been recorded.

Future Income Tax Recovery (Expense)

The reconciliation of income taxes computed at the statutory tax rates to income tax expense is as follows:

	2003	2002
Tax at combined federal and provincial tax rates	**$ 254,061**	$ (154,090)
Benefit of current tax losses not recognized	**(383,973)**	(247,045)
Benefit of tax losses recognized	**—**	307,600
Permanent differences	**237,011**	(11,155)
Lower effective tax rates outside Canada	**17,901**	(20,310)
Future income tax recovery (expense)	**$ 125,000**	$ (125,000)

Loss Carryforwards

The Company and its subsidiaries have tax losses available that can be applied against future years' taxable income. The Company also has investment tax credits available in Canada that can be applied against future years' income taxes payable. As at November 30, 2003, these items expire as follows:

	Tax Losses	**Investment Tax Credits**
2004	—	113,000
2005	22,000	—
2006	586,000	106,000
2007	167,000	56,000
2008	17,000	123,000
2009	23,000	188,000
2010	590,000	173,000
2011	—	12,000
2012	—	203,000
2013	—	151,000
	$1,405,000	$1,125,000

Tax losses in the UK of $2,744,000 may be carried forward indefinitely. Tax losses in the US of $236,000 have a 15-year carry forward with expiry dates ranging from 2005 through 2017. In addition, the Company has unclaimed SR&ED deductions of $2,788,000 and capital losses of $426,000 which have no expiry.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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10. RELATED PARTY TRANSACTIONS

As at November 30, 2003, annual and meeting fees payable to directors acting in their capacity as directors totalled $13,750 [2002 - $8,750]. For the year ended November 30, 2003, directors' fee totalled $45,000 [2002 - $42,000].

On November 30, 2002, $31,850 in loans due from certain employees and officers of the Company, originally due on November 30, 2002, were extended to and repaid on December 12, 2003 *[note 7]*.

11. INFORMATION BY GEOGRAPHIC AREA

The Company operates within one dominant industry segment, the development and sale of computer software products.

	2003			
	North America	Europe	Eliminations	Consolidated
Revenue				
Customers	**$ 3,914,607**	**$ 612,544**	**$ —**	**$ 4,527,151**
Interest income	**14,297**	**269**	**—**	**14,566**
Intercompany	**33,474**	**—**	**(33,474)**	**—**
	$ 3,962,378	**$ 612,813**	**$ (33,474)**	**$ 4,541,717**
Loss from continuing operations before income taxes	**$ (604,021)**	**$ (89,755)**	**$ —**	**$ (693,776)**
Capital assets	**$ 104,825**	**$ 16,244**	**$ —**	**$ 121,069**

	2002			
	North America	Europe	Eliminations	Consolidated
Revenue				
Customers	$ 3,956,539	$ 511,095	$ —	$ 4,467,634
Interest income	5,898	1,749	—	7,647
Intercompany	94,421	—	(94,421)	—
	$ 4,056,858	512,844	$ (94,421)	$ 4,475,281
Income (loss) from continuing operations before income taxes	$ 175,769	$ (358,548)	$ —	$ (182,779)
Capital assets	$ 80,989	$ 13,865	$ —	$ 94,854

12. OTHER INCOME

In May 2000, the Company settled an outstanding proceeding with TRIFOX, Inc. ["TRIFOX"]. The settlement provided for an initial cash payment of US$250,000 [all of which was received] and ongoing semi-annual payments totalling US$520,000 of which US$285,991 remains outstanding. These remaining payments are linked to the revenue of TRIFOX and are collateralized by way of a US$1,429,957 Secured Promissory Note to be drawn down pro-rata based on the payments received. ANGOSS is also entitled to receive additional cash consideration in certain circumstances and to participate, at its option, in certain future financing transactions involving TRIFOX. TRIFOX's payment obligations can be prepaid on an agreed net present value basis, and are collateralized by a first ranking General Security Agreement, Stock Pledge Agreement, Copyright Security Agreement, Limited Recourse Guaranty Agreement and a Source Code Escrow Agreement. In connection with the settlement, both companies have also entered into Mutual Final Releases of claims on all matters relating to litigation between the parties.

The balance of the amount receivable, after deducting collection expenses (21.37% of amounts received), will be recorded by ANGOSS as non-operating income in the quarter the amount is otherwise due. To date, all amounts from TRIFOX have been received in accordance with the settlement agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2003
[in Canadian dollars unless otherwise indicated]

13. DISCONTINUED OPERATIONS

Effective December 31, 2001, after completing the amalgamation outlined in note 1, the Company completed a restructuring of the SmartWare business operations and sold the SmartWare business to a newly incorporated US company, called SmartWare Corporation ["SW"]. SW was formed by the employee who was previously responsible for the SmartWare business.

In conjunction with the sale, the Company acquired, for $159,280 and then sold to SW, as part of the transaction, license rights for the manufacture, sale and distribution of SmartWare products. Such license would have otherwise expired in 2003. Releases were also entered into with respect to the business formerly conducted through SmartWare. As a result of the amalgamation, restructuring and sale transaction, and related agreements, net liabilities totalling $535,554 were discharged. This amount has been recorded as discontinued operations.

Also, in conjunction with the sale, the Company received, from SW, a US$250,000 non-interest bearing Promissory Note due over five years [$50,000 per year] and entered into a five-year, US$300,000 Services Agreement [$60,000 per year]. No recognition was made in the consolidated financial statements for the receipt of the Promissory Note.

On May 31, 2002, the Company, after reviewing SW's operations, its outlook as well as its requirement for cash and cash guarantees, settled the Promissory Note and Services Agreement for cash of US$30,001 and a further minimum of US$20,000 to a maximum of 5% of gross revenue generated by SW to November 30, 2004. Such additional amounts are due on or before November 30, 2004. No recognition has been made in the consolidated financial statements for the receipt of such amounts. In the event that SW decides to sell its business, the Company will receive a further US$100,000 less any amounts paid to the Company before November 30, 2004. In addition, the Company discharged its General Security Agreement over the assets of SW and agreed to the cancellation of a warrant to acquire up to 10% of SW in certain circumstances.

The results associated with the discontinued business is summarized as follows:

Years ended November 30
(stated in Canadian dollars)

	2003	2002
Revenue	**$ Nil**	$ 47,252
Net income from discontinued operations	**$ Nil**	$ 574,127

14. RESEARCH AND DEVELOPMENT

Repayable Contribution Agreement

On February 14, 2003, the Company entered into a Repayable Contribution Agreement with the National Research Council of Canada ("NRC"). Under the Agreement, the NRC contributed $246,600 for costs incurred in the direct performance of defined work undertaken by the Company. Starting in September 2004, the contributions are repayable quarterly at a rate of 1.07% of the prior quarter's revenue until the earlier of February 2006 or $369,900 has been paid. If, as at February 2006, the payments to NRC are less than $246,600, payments will continue on the same basis until the earlier of full repayment of the NRC contribution or September 2014. As at November 30, 2003, contributions repayable to the NRC were $246,600.

Ontario Innovation Tax Credit

Research and development costs are recorded net of the Ontario Innovation Tax Credit ("OITC"). During the twelve months ended November 30, 2003, research and development expenses otherwise incurred were reduced by $163,122, representing $113,122 on receipt of amounts not previously recognized for fiscal years 2001 and 2000 and $50,000 on account of fiscal 2003. As at November 30, 2003, accounts receivable include $100,000 on account of 2002 and 2003 OITC. The balance of the OITC on account of 2002 and 2003 will be recognized in the year of receipt.