ANGOSS

2004 annual report

Angoss Software Corporation

Targeted Solutions. Demonstrable Business Value. Immediate ROI.

KnowledgeSTUDIO® Enterprise	Predictive, advanced solutions for analytics departments.
Credit Risk Reporting & Analytics™	For consumer and small business credit portfolio managers.
Claims & Payments Analysis™	For claims and payments investigators and internal auditors.
FundGUARD™	For mutual fund and wealth management sales managers.
Telecom Marketing Analytics™	For communications industry marketing professionals.

Market Proven Software. Focused Services Expertise.

	Analyst Tools	Scoring & Deployment Tools	Process Management Tools
Offerings	KnowledgeSTUDIO® KnowledgeSEEKER®	KnowledgeSERVER®	Mining Manager®
Features	• Intuitive GUI and processes • Interactive Discovery • Profiling, modeling and deployment • Scalable and easily integrated • Current, proven technology platform	• Batch Scoring • Real Time Scoring • Scriptable Engine; Open API • Supports popular server platforms • Standards-based	• Packaged Applications • Centralized, Secure Access • Web Services • Task Automation • Process Management • Change Control
Benefits	• Ease of Use • Low Learning Curve • Fast Time to Results • Better Rules & Strategies • More Business Value • Affordable	• Fast Deployment • Reduced Deployment Risk • Flexibility for Integration • High Reliability and Availability	• Configurable Solution • Best Practices based Templates • Streamlined Workflow • Improved Documentation

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President's Message To Shareholders

Angoss empowers people to make "Better Business Decisions. Every Day."™

Many of the world's leading companies use Angoss predictive analytics software to grow revenues, while reducing risk and cost. Angoss helps our clients **discover** the key drivers of customer behaviors, **predict** future trends and events, and **act** with confidence when making business decisions.

During 2004 we increased revenues by 30% to over $6 million. Solid European growth and an improved second half performance in North America helped us achieve this result.

Our 2004 revenues were generated primarily from packaged software sales and related services. We continue to grow our user communities in financial services and telecommunications accounts with existing and new clients, and to expand our client base within life sciences, retail and other industries. We expect our various branded packaged software sales to continue to expand in 2005.

Partnerships with leading enterprise software and services organizations are integral to our business success. Royalties, packaged software sales, and implementation service revenues associated with partner sales all contributed to revenues in 2004. In 2005 we look forward to continuing to expand existing partner relationships as well as announcing additional partnerships.

During 2004 we focused on expanding our offerings with predictive analytics solutions combining comprehensive Angoss software systems and a broad set of implementation services. At the end of the second quarter, we announced four specific solution initiatives - Credit Risk Reporting & Analytics™, FundGUARD™, Claims & Payments Analysis™, and Telecom Marketing Analytics™.

These solutions address targeted industry specific business opportunities. They provide highly targeted, demonstrable business value benefits and are delivered on a common, standards-based, and uniquely differentiated Angoss predictive analytics software platform. An Angoss solution offers extended capability to a broader audience of business users faster and more effectively than traditional packaged software. We are excited about the ability of our solutions to deliver significant value to our customers.

We are already working in 2005 on the initial phases of solution deployments at select client sites. Preliminary results have been encouraging, and during 2005 we expect this process to continue - with expansion of successful implementations at existing client sites as well as through expansion of our opportunities funnel, signed contracts, and solution launches for additional clients.

By succeeding in solution development and deployment areas, we will be able to accelerate revenue growth and business expansion, while enhancing shareholder value by delivering more predictable, repeatable and sustainable growth in quarterly revenues.

Packaged software sales offer attractive margins, and streamlined sales processes. However, they tend to deliver low per sale transaction value and often do not reflect unique differentiated capability. Solution sales deliver higher business value to buyers - and provide higher revenue to sellers as a result of the expanded software and services required to deliver that value to buyers.

Solution sales involve longer and more complex sales cycles, as well as phased implementation timelines that impact revenues. This expansion of our business capability may impact on quarterly and annual results moving forward, depending on the timing and value of solution sales proposals and the delivery cycle.

Directionally, our focus is delivering higher value to clients and this trend should result in improved revenue growth moving forward. We have seen the start of this process in 2004 and we hope to continue to progress in this direction in 2005.

I look forward to meeting with shareholders at our annual meeting this year to review our accomplishments in 2004 and to discuss our outlook for 2005.

Yours truly,

Eric Apps

Credit Risk Reporting & Analytics™

Some of the world's largest financial services organizations use Angoss products and services to drive continuous improvement in their credit lifecycle management systems - for credit approvals, account monitoring, collection optimization, and to address emerging requirements for enhanced risk management systems and reporting. One Angoss client recently saved over $8 million by using our predictive analytics system to improve their credit collections management processes. Another Angoss client has been able to improve alignment between capital requirements and business risk through intelligent segmentation of portfolio risks. This releases tens of millions of dollars in capital that can be used to drive revenue and profit growth elsewhere in the business.

Historically low interest rates, borrower demand, new personal and business credit offerings, and increased competition among lenders have resulted in significant expansion of consumer and small business credit balances over the past 5 years. These growth drivers, industry consolidation, and emerging regulatory requirements all present challenges for credit providers who want to streamline and improve their credit portfolio management systems, processes, and tools to enable proactive management of their portfolios and risk exposures.

Being able to understand and report on the key components of credit risk can help organizations deliver products that meet the unique needs of each customer. It also helps organizations to better understand, manage and reduce risk across portfolios, measure and monitor dynamic changes, and comply with regulations, such as the Basel Accord. Reduced risk means better pricing, improved regulatory compliance, better bottom line performance and a definitive strategic advantage.

Traditional tools and methodologies have not kept pace with the many industry changes. Many financial services organizations currently support their credit risk analytics function with non-scalable statistical tools and legacy reporting systems for data extraction, preparation and analysis. These systems are time consuming, expensive, do not integrate well with their enterprise environments, and divert valuable time, attention and resources away from proactive risk assessment and strategy refinement.

Angoss Credit Risk Reporting & Analytics is targeted to the specific challenges lending organizations face in improving the management of credit risk across their consumer and commercial credit portfolios. It provides a powerful, uniquely differentiated capability that risk managers can use to analyze, assess and proactively respond to dynamic changes that impact on their adjudication, account management, and collections business processes. The Angoss Credit Risk Reporting & Analytics solution combines unique analytics, detection and reporting capabilities that allow managers, analysts and other stakeholders to focus on strategy and on achieving results.

Angoss clients understand that advanced analytics can be applied throughout the credit lifecycle to drive efficiency, process improvement and improved bottom line results through lower charge-offs and higher recoveries. By delivering predictive analysis, reporting and scoring capabilities to portfolio managers and analysts in an integrated fashion, using industry standard technologies, Angoss Credit Risk Reporting & Analytics offers a compelling alternative for risk management organizations that want to be able to make "Better Business Decisions. Every Day."

FundGUARD™

During the first month of its pilot roll-out with a new client, FundGUARD has generated over $15 million in net incremental mutual fund sales. This was a significant positive swing in peer group performance for this fund manager - in one month. The return on investment to this client for this initial phase of the deployment has been outstanding.

The mutual fund and wealth management industries have experienced significant growth over the past decade. Measured by assets under management, the mutual fund industry alone represented in excess of $7 trillion dollars worldwide in 2004, according to industry reports.

Mutual fund managers now face the challenges of a maturing, increasingly competitive industry, and a recurring "churn" problem. On average, 20% of fund assets - or $140 billion across the mutual fund industry worldwide - are being redeemed annually. Industry wide, in both direct and wholesale channels, fund companies face pressure to drive increased sales, grow and maintain assets under management, and strengthen relationships with their distribution partners while simultaneously assessing the effectiveness of their channels.

Against this backdrop, restrictions on sales and marketing activities are growing. Reduced top line revenue growth means closer focus on budgets and marketing spend. Fund sales and marketing professionals must increasingly allocate their budget spend to those regions, channels and opportunities that will drive the highest value for their organizations. With complex distribution channels serving thousands of financial advisors, these can be difficult challenges.

As an example of client needs driving solution development, Angoss has brought to market FundGUARD, a unique predictive analytics system that specifically targets the business challenges for mutual fund sales and marketing organizations.

FundGUARD helps sales and marketing managers of mutual fund companies drive asset growth by applying advanced predictive analytics capability to assess, flag and alert them to their best sales opportunities and their most significant redemption risk exposures.

With FundGUARD these organizations are able to:

Discover - Actionable knowledge about their customers and channels they can use for competitive advantage -from their own data

Predict - Best sales opportunities and highest redemption risks six times better than their current approaches.

Act - To significantly improve revenue growth while better managing redemption risk - by using highly targeted results from advanced analytics to drive continuous sales process improvement.

Delivered on a managed service basis, with full knowledge transfer capability, FundGUARD, provides fund managers with tools and knowledge that help them do what they do best-drive sales growth. For fund managers, FundGuard means "Better Business Decisions. Every Day."™

Telecom Marketing Analytics™

Within a few weeks of deployment, Angoss Telecom Marketing Analytics has helped one of our clients identify a $50 million plus revenue opportunity in a highly targeted SME business segment. Their sales organization can target these accounts…today. This is the business value impact of Angoss. Smarter Targeting. Better Marketing.

The telecommunications industry continues to undergo significant structural change across North America and around the world. Industry consolidation. Price compression. New technologies, such as Voice-over-IP. New appliances, such as Canada's own Blackberry. Convergence of local, long distance, wireless, Internet and cable based voice and data services.

Retail and business markets for existing services have seen billions of dollars in long distance revenue erosion through price competition and regulatory changes over the past decade and the emergence of new systems and the promise of entirely new services offerings for consumer and business markets create both promise and the challenge of new growth opportunities.

Traditional telecom carriers are trying to preserve the value of their traditional local and long distance businesses, while deploying the cash flow they generate into more profitable communications business segments and service offerings.

Wireless telecom carriers are expanding rapidly but increasingly shifting their attention from traditional growth metrics - subscriber acquisition rates, average revenues per user, and acquisition costs - to more granular measures of customer profitability, value and loyalty. Cable carriers are trying to expand their share of the telephony and Internet access markets by leveraging their broadband capabilities, bundling their services offerings, and introducing new capabilities, while extending their cable revenues with new premium content offerings.

All of these companies face a common challenge and are pursuing a common opportunity - maximizing service revenues per customer, while strengthening best customer relationships through multiple offerings and bundles to fend off competition.

Angoss offers a unique suite of communication solutions focused on putting the power of predictive analytics in the hands of the telecommunications marketers who are targeting consumer and SME business opportunities. Tailored to the unique needs of the telecom industry, Angoss solutions specifically target and improve customer loyalty, acquisition rates, and revenue growth.

Using the Angoss Telecom Marketing Analytics solution, marketers can easily perform strategic segmentation of their retail and SME client base on a recurring basis, assess the value of different strategies, and create and execute targeted customer level offers, while tracking results and measuring return on investment. Angoss Telecom Marketing Analytics helps marketers execute more effective marketing strategies designed to maximize revenues and relationship value, while reducing acquisition costs, and risk of churn from their highly valued customers.

More affordable - and substantially more effective - than traditional statistical tool-based approaches, Angoss Telecom Marketing Analytics delivers high impact and high value to telecom marketers. When telco marketers learn to understand and influence customer behavior through the Angoss proven, scientific approach they get "smarter targeting and better marketing."

Claims & Payments Analysis™

Angoss was recently selected by one of North America's largest disability insurance providers following a comprehensive selection process to provide a predictive analytics system to support audit, assessment and verification of employer premium payments. This solution has applicability for insurers and other benefits administrators across the industry. It is part of our commitment to deliver improved analytics tools to improve processes, better measure and reduce risk, and eliminate abuse.

Private and public insurers, entitlements providers and payments administrators face significant challenges. Industry experts estimate fraud and abuse to represent 20% or more of all claims made in certain industry segments, and with insurance and entitlements claims in the hundreds of billions of dollars annually, fraud, abuse and error represent a substantial cost to insurers and their customers.

Private and public sector payers also face political, regulatory, competitive and public pressure to streamline and track claims administration operations, provide timely and efficient approval of claims and payments, and lower premium costs. They also face pressure, while preserving client privacy and confidentiality, to proactively investigate and assess claims for potential fraud and abuse. These pressures are exerted on organizations that typically process hundreds of millions of individual claims and payment transactions annually.

Competing considerations - to pay or not to pay - land on the desktops of investigators and auditors who typically lack the time, staff and resources to conduct detailed analysis and assessment of individual transactions.

Against this backdrop, the special investigations units and audit divisions of most insurers and entitlement providers are hard pressed to align scarce resources and budget dollars to meet internal needs and regulatory requirements to streamline payments, reduce waiting times, and lower administrative costs.

As well, internal auditors and special investigations units of all organizations face the mandate to analyze and assess business process risks in such areas as supplier, employee and customer claims & payments. This mandate is driven by considerations of risk management, cost containment, and expanding regulatory requirements related to the accuracy and completeness of corporate financial statements and the underlying transactions they represent.

Angoss Claims and Payments Analysis™ offers these organizations a standards based system to conduct claims and payments analysis, while creating, documenting and executing enhanced business processes to automatically audit claims and payments, screen and approve claims and payments, and flag suspicious transactions for further investigation.

KnowledgeSTUDIO® Enterprise

Angoss products are used by analysts to drive revenue growth, reduce risk, and continuously improve decision-making. Angoss clients include 7 of the top 10 corporations worldwide, 3 of the 4 largest Canadian Schedule 1 chartered banks, and 3 of the 4 largest banks in the United Kingdom.

Angoss addresses the unique needs of the world's most sophisticated users of predictive analytics - global retail banking and consumer credit organizations. Many of the world's most advanced users of data mining and predictive analytics have selected Angoss as one of their key analytics vendors and they have done so because Angoss delivers market proven performance, exceptional software, and significant business value.

Angoss predictive analytics solutions reflect over a decade of focused industry expertise and expanding and developing relationships with clients. We apply the knowledge we gain from our clients to constantly develop product enhancements and expand our services to grow and meet the needs of our clients. Our products and services reflect our relationships, and our experiences.

KnowledgeSTUDIO Enterprise provides advanced users of predictive analytics systems with an affordable, powerful, standards-based alternative to traditional systems and methodologies to address current and emerging predictive analytics needs. Angoss helps our clients maximize the value of existing systems and skill sets, extend their analytics capabilities, and implement systematic improvements that position them ahead of the competition to drive improved bottom line business performance.

Angoss already offers the leading alternative to traditional statistical tools for organizations standardizing on the Microsoft platform. Angoss offerings are tightly integrated with Microsoft Windows, Office and SQL Server platforms. Angoss also expects to announce during 2005 expanded support for IBM platforms, under which Angoss will make available to our clients, as part of our offering, direct integration with the IBM DB2 platform for predictive analytics and deployment.

Many financial services organizations have standardized operational, analytics or both environments on IBM platforms. They also use IBM implementation services and technologies on an installed or managed service basis for these environments. By providing a fully integrated offering that seamlessly integrates with these environments, Angoss can enhance value for clients running their data warehousing and other management systems on IBM platforms.

During 2005, Angoss expects to announce additional initiatives in this area.

2004 Results Highlights

Improved Revenue Performance

Growth exceeded industry projections and peer group company performance.

We experienced growth in Europe throughout the year and North American performance improved, particularly during the second half of the year.

Both direct and partner channels contributed to revenue growth.

Revenue growth helped us fund expansion of our team and capabilities in marketing, sales and services.

Expanded Solutions Offerings

We have introduced higher value analytics solutions targeting industry specific challenges.

Predictive analytics solutions are engines of additional revenue growth for Angoss.

Angoss predictive analytics solutions reflect over a decade of industry experience, best practices and software development skill sets.

Angoss predictive analytics solutions deliver business value benefits to users faster and more cost effectively then traditional statistical tools based approaches and methodologies.

Building Our Team

During 2004, Angoss made progress in aligning our organization to maximize the value of our traditional software, channel, and solutions based sales opportunities.

We supported additional hires in marketing, sales, expert services, project and product management.

The capabilities of our sales, services, product management and development organizations continue to develop as our organization matures.

Our team is focused around driving revenue growth through delivery of predictive analytics solutions that drive business value to our customers and reflect our uniquely differentiated capabilities.

Increasing Transaction Value

Angoss continues to make progress towards our goal of delivering substantially higher transaction value sales.

While our analyst tools sales have traditionally been and remain in the low to mid five-figure range per sale, our predictive analytics solutions are increasingly an order of magnitude larger and combine Angoss software and expert services capability.

We have been encouraged by the responsiveness of both clients and prospects to this approach.

Our proposal funnel is growing and we expect predictive analytics solutions to comprise a higher proportion of overall revenues in 2005 compared to prior years.

Product Development and Innovation

Angoss has been and remains a software solutions company. While we focused considerable effort during 2004 in aligning our marketing, sales and service delivery capabilities to support solutions sales, we have also continued to strengthen and improve our development organization.

We have invested and continue to invest in research and product development. We have also continued to expand our portfolio of intellectual property through patents and trade marks reflecting our uniquely differentiated software and expert services capability.

During 2005 we expect to release additional important enhancements to and extensions of our software offerings to support our business expansion from primarily desktop analytics tools-based software sales to enterprise deployment of predictive analytics systems consistent with our "Discover. Predict. Act." positioning.

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Our Outlook for 2005

In our Annual Report last year, and at our annual meeting, we outlined our plans to extend our capabilities with a specific set of targeted predictive analytics solutions - by starting with our customers and assessing their needs and goals.

> ***"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."***

Organizations within the financial services industry are well advanced in their use of predictive analytics and face unique issues and challenges to streamline, standardize and extend their predictive analytics capability. Angoss is actively working to address these challenges with innovative enhancements to our products under the Angoss KnowledgeSTUDIO® Enterprise brand.

Outside of the finance industry, most organizations are increasingly looking for integrated, packaged predictive analytics systems that can address their specific business needs and challenges. For these needs, predictive analytics solutions delivered on the Angoss Mining Manager® platform provide a compelling alternative to traditional tools based approaches.

Our experience in selling predictive analytics software and services across many industries has provided Angoss with unique insight into both the opportunities and challenges organizations face in successfully adopting and using predictive analytics to unlock insight from their data that can drive business value. In choosing a well defined set of industry solutions, we have taken into account the capabilities and experience Angoss has developed across all major industries, the perspectives of key clients and partners, input from industry analysts and advisory groups, and advice from experienced, external enterprise software entrepreneurs and strategy consultants.

Equally importantly, our solutions are being driven by the requirements of our customers. Our commitment to deliver targeted solutions in response to client driven requirements is well understood within the company. Credit Risk Reporting & Analytics, FundGUARD, Claims & Payments Analysis, and Telecom Marketing Analytics provide this specifically targeted capability. They address known needs of well-defined stakeholder groups, in clearly defined industries.

Our solutions are all based on, and delivered from, the Angoss predictive analytics software platform, which is standards-based and can be deployed in Microsoft, IBM and Oracle environments on Windows and major Unix platforms. They are all configurable solutions that can be deployed across multiple client sites with a minimum of customization and that have the capability to be easily extended to address similar business challenges organizations face in other industries.

All of our initiatives, both in solution and software development and expansion, are oriented to delivering more highly focused, substantially higher value proposals to targeted clients in need of our industry solutions.

We are pleased with the responses we have received to date from our clients and prospects and expect to see continued progress during 2005.

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

Management's discussion and analysis of the operating results and financial condition should be read in conjunction with the Company's fiscal 2004 audited financial statements that have been prepared by management in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise stated. The Company's financial year ends on November 30. All references to a "Fiscal Year" mean the twelve-month period commencing on December 1st and ending on November 30th of the following year. The financial data in the MD&A has been prepared by management in accordance with Canadian generally accepted accounting principles. This MD&A has been prepared with all information available up to and including January 26, 2005.

Overview of the Company

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

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.

Forward-looking Statements

Some of the statements contained in this Annual Report including, without limitation, those relating 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.

Selected Financial Information

Stated in $ Canadian	**2004**	2003	2002
Revenue	**$ 6,073,494**	$ 4,541,717	$ 4,475,281
Gross margin	**6,024,128**	4,513,801	4,452,718
Sales and Marketing, General and Administration and Research and Development expenses	**6,072,107**	4,867,339	4,544,192
Loss from continuing operations before the following	**(47,979)**	(353,538)	(91,474)
Foreign exchange losses, Special charges, Financing expenses, Amortization and Other income	**(589,108)**	(340,238)	(91,305)
Loss from continuing operations before income taxes	**(637,087)**	(693,776)	(182,779)

Stated in $ Canadian	**2004**	2003	2002
Future income tax recovery (expense)	**125,000**	125,000	(125,000)
Discontinued operations – SmartWare business	-	-	574,127
Net loss for the year	**(512,087)**	(568,776)	266,348
Basic and diluted (loss) earnings per share	**(0.01)**	(0.01)	0.01
Total assets	**4,530,308**	4,962,789	2,277,147
Total long term financial liabilities	**1,650,021**	2,315,560	250,000
Cash dividends declared per Preferred share	**$ 0.07**	$ 0.00	-

In November 2003, the Company closed a $2.3 million 5-year preferred share financing with a syndicate of private and management investors. As noted in 2004, the proceeds of the financing are being used to reposition the Company to 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 to the marketing and credit risk management analytics needs of our core financial services and telecom clients and new clients in targeted industry verticals. These initiatives helped the Company increase revenues in 2004.

Consistent with its focus on shifting to higher transaction value opportunities, the Company realigned personnel resources at the end of the second quarter, strengthening its marketing, sales, expert services and analytical solutions areas.

While the loss from continuing operations before income taxes in 2004 ($637,087) was similar in magnitude to the loss in 2003 ($693,776), the underlying causes were quite different. The loss in 2004 includes $277,661 related to the preferred share financing (2003 - $9,939), $125,646 related to terminations (2003 – nil) and foreign exchange losses of $152,891 (2003 - $317,252). In 2005, preferred share financing related expenses are expected to be $268,000. At the present time there are no anticipated restructurings. The Company is still subject to gains and losses related to foreign exchange and the Company's 2005 strategy includes a greater use of natural hedges (to the extent possible) and foreign exchange forward contracts. The Company does not enter into foreign exchange forward contracts for speculative purposes.

In 2002, the Company divested itself from the SmartWare business as it was non-core to the strategic direction of the Company. A majority of the gain recorded with respect to that divestment resulted from the discharge of liabilities associated with the SmartWare operations.

Results of Operations

Revenue

Revenue (other than interest income) consists of license revenues derived from direct software sales (both the initial license and subsequent annual license renewals), royalty revenues derived from partner software sales, and service revenues derived from data mining consulting, software engineering and solution implementation services for clients and partners.

License revenue is earned through the licensing of the right to use the Company's software products. Royalty revenues are derived from partner software sales in accordance with the provisions of the applicable license agreement. Service 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, 2004 totalled $6,032,148 (2003 - $4,527,151). Interest income in 2004, generated on surplus cash, was $41,346 (2003 - $14,566). Product revenue includes **license, professional service and partner revenues** as described below. During 2004, no one customer accounted for more than 10% of revenue (2003 – 1 customer).

In 2004, license revenues, including earned license renewals, represented 75.2% (2003 – 87.3%) of product revenue. Such revenue was derived primarily from the direct sale of license and license renewals. During 2004, such revenues increased 14.7% over the prior year (1.0% increase in 2003). In North America, such revenue grew 5.1%, while in Europe, such revenue grew 58.5%. In 2003, 18% growth in Europe was offset by a 1.1% decline in North American sales.

In 2004, professional service revenues represented 9.2% (2003 – 11.9%) of product revenue. Such revenue represents time spent by professional service staff on customer defined analytic projects. Time spent by service staff on partner related projects is considered as partner revenues. During 2004, such revenue grew 2.8% over the prior year (2.6% decrease in 2003). Such revenues are expected to grow in 2005 as the Company continues to focus on the delivery of analytic solutions.

In 2004, partner revenues, represented 15.6% of product revenue (2003 – 0.8%). Such revenues consist of both royalties on the sale of product licenses by a partner and fees for professional services provided directly to a partner or as part of a partner's solution for a customer. All such revenues were generated in North America. Revenues generated through partners are not subject to the direct control of the Company and are based on sales of partner products incorporating Company program modules and associated product and implementation services revenues. These revenues will fluctuate based on the success of partners in selling their applications incorporating Angoss programs and the timing and value of associated revenue opportunities derived from these sales.

The Company currently operates primarily in two geographic markets: North America and Europe. North American product revenues comprised 82.9% of product revenues in 2004 (2003 – 86.5%). European revenues comprised 15.5% of product revenues in 2004 (2003 – 13.5%). The increase in the relative proportion of European revenues reflected expansion of the Company's direct sales efforts in Europe. As well, the decline of the US dollar impacted North American revenues. Product revenues from markets outside 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. During 2004, this market place generated 1.6% of product revenues (2003 – Nil).

During 2004, the Company maintained its primary focus on the financial services industry. Approximately 68% of revenue in 2004 (2003 – 53%) 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 primarily from clients in the communications and life sciences industries.

of Goods Sold and Gross Margin

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:

	2004		2003	
Cost of Goods Sold	**$49,366**	**0.81%**	$ 27,916	0.62%
Gross Margin	**$6,024,128**	**99.19%**	$ 4,513,801	99.38%

Gross margins were essentially unchanged during 2004. 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.

and Expenses

Costs and expenses consist of salary and benefit expenses ("compensation"), as well as sales and marketing, administrative and research and development expenses. Such expenses increased by 24.8% in 2004 over 2003 levels (a 7.1% increase in 2003 over 2002).

	2004	2003
Sales and Marketing, General and Administration and Research and Development expenses ("Operating expenses")	**$ 6,072,107**	$ 4,867,339

In 2004, compensation accounted for 73.3% (2003 – 75.6%) 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 2004, Sales and Marketing ("S&M") expenses were $3,274,187, an increase of 40.6% over the prior year (2003 - $2,328,294 – 6.1% increase).

	2004		2003	
Compensation				
North America	**$ 2,051,420**	**62.7%**	$ 1,641,946	70.6%
Europe	**585,587**	**17.9**	231,139	9.9
Consulting fees	**12,640**	**0.3**	138,211	5.9
	2,649,646	**80.9**	2,011,296	86.4
Increase	**31.7%**		4.9%	
Other				
North America	**494,038**	**15.1**	224,157	9.6
Europe	**130,503**	**4.0**	92,840	4.0
	624,541	**19.1**	316,997	13.6
Increase	**97.0%**		14.6%	
	$3,274,187	**100.0%**	$ 2,328,294	100.0%
Increase	**40.6%**		6.1%	
Total S&M expenditures as a % of revenue	**53.9%**		51.3%	

S&M compensation represents amounts paid to personnel engaged in 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 15% depending upon the product or service sold and the timing of such sale relative to the achievement of bonus compensation thresholds and accelerators contained in the Company's sales compensation plan. In 2004 compensation expense increased 31.7% (2003 – 4.9% increase), reflecting in both years, fluctuating staff levels and in 2004, increased commissions based on higher revenues. In Europe, direct expenses increased as a result of expanding the sales team during the year. The contract with a third party consultant in the UK, 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. Initial changes involved the transfer of senior sales management and services personnel to Europe to strengthen European sales and expert services operations and refocusing existing North American sales operations on higher growth revenue opportunities.

At the end of 2004, 13 people were assigned to this department in North America (2003 – 13). In Europe, 5 people (2003 – 2) were fully dedicated to this department. In 2003, the compensation associated with one additional person was allocated between General and Administration ("G&A") and S&M.

In 2004, 41.0% of other sales and marketing expense was dedicated to building and maintaining relationships with our customers (2003 – 50.8%). In 2004 the increase was directly related to increased travel and on site customer visits associated with gathering client requirements and preparing analytical solutions proposals linked to those requirements.

In 2004, 26.3% (2003 – 49.2%) of other sales and marketing expense was devoted to marketing initiatives such as trade shows, advertising, lead generation, analyst / public relations, etc. In 2004, the Company attended 8 trade shows (2003 – 3) in North America and 2 trades show in Europe (2003 – 2).

In 2004, 29.0% of other sales and marketing expense was paid to third party consultants who provided strategic sales and marketing services and the balance (3.7%) was paid to patent attorneys. One of the consultants received warrants (see note 7 to the 2004 consolidated financial statements) and certain principals also participated in the preferred share financing (see notes 6 and 10 to the 2004 consolidated financial statements). Patent attorneys worked on two patents that have been filed in the United States.

General and Administration

In 2004, G&A expenses were $1,601,050, an increase of 20.5% over the prior year (2003 - $1,328,726 – 11.0% increase over 2002).

	2004		2003	
Compensation				
North America	**$ 566,760**	**35.4%**	$ 376,280	28.3%
Europe	**35,429**	**2.2**	77,102	5.8
	602,189	**37.6**	453,382	34.1
Increase (decrease)	**32.8%**		(6.14)%	
Other				
North America and Australia	**834,986**	**52.2**	730,815	55.0
Europe	**163,875**	**10.2**	144,529	10.9
	998,861	**62.4**	875,344	65.9
Increase	**14.1%**		22.6%	
	$ 1,601,050	**100.0%**	$ 1,328,726	100.0%
Increase	**20.5%**		11.0%	
Total G&A expenditures as a % of revenue	**26.4%**		29.3%	

In North America, changes in compensation were due to increases in compensation rates. At the end of 2004, 5 people were assigned to this department (2003 – 5). Effective June 2004, European administrative duties and associated compensation were contracted to a third party, on a part-time basis. In 2003, European compensation represented the cost of one additional person allocated between G&A and S&M.

Other G&A expenses are made of four main components – occupancy costs, professional fees, communication costs and ordinary course business expenses. In addition, in 2004, other G&A expenses include non-cash costs associated with Australian operations. Such amounts were 9.8% of other G&A expenses (2003 – nil).

In 2004, occupancy costs accounted for 36.3% (2003 – 34.1%) of other G&A expenses. Occupancy costs increased 21.5% in 2004 (decrease of 3.9% in 2003). In 2004, increases in the base rent and allocated building operating costs in both North America and Europe accounted for the changes. In 2003, a reduction in European office space was offset by higher North American base rent and allocated operating costs.

In 2004, professional fees (legal, audit, director, recruiting, transfer agent, wire services) accounted for 25.6% (2003 – 26.8%) of other G&A expenses. In 2004, professional fees increased 9.3% (2003 – 23.9% increase) primarily as a result of increased recruiting fees, audit fees and the costs of maintaining a public company.

In 2004, communication costs (primarily telephone and postage) accounted for 6.6% (2003 – 6.7%) 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% (2004 – nil) of other G&A expenses. In 2004, direct ordinary course business expenses of 31.5% of other G&A expenses (2003 – 23.8%), 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 2004 there were 12 staff in R&D (2003 – 19). Compensation costs in 2004 reflect the May 2004 restructuring of R&D operations and reduced staffing levels. Changes in the staffing levels near the end of 2002 accounted for the increase in compensation in 2003.

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 both 2004 and 2003, the increase in other development expenses reflected the costs associated with increasing and supporting staff.

In 2004, the Company recognized $50,000 on account of 2004 Ontario Incentive Tax Credits ("OITC"). In 2003, the Company received approximately $213,122 on account of fiscal 2000 and 2001 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, 2004, accounts receivable include $150,000 (2003 - $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, 2003 and 2004.

	2004		2003	
Compensation	$ 1,213,011	97.3%	$ 1,354,958	98.6%
(Decrease) increase	(10.5%)		11.9%	
All other	33,859	2.7	18,482	1.4
Increase	83.2%		169.3%	
Total expenditures before tax credit	1,246,870	100.0%	1,373,441	100.0%
(Decrease) increase	(9.2%)		12.7%	
OITC	(50,000)		(163,122)	
	$1,196,870		$ 1,210,319	
Increase	(1.1%)		13.3%	
Total R&D expenditures before tax credit as a % of revenue	20.5%		30.2%	

During 2004 the Company's development priorities were adjusted to reflect the expansion of its offerings to include higher value predictive analytics solutions. These initiatives included the following:

- Angoss Analytics Solutions - Development of extensions to the Angoss predictive analytics platform to support Credit Risk Reporting & Analytics, FundGUARD, Claims & Payments Analysis, Telecom Marketing Analytics and other planned predictive analytics solutions.
- KnowledgeSTUDIO® Enterprise - Migration of Angoss analytics tools, KnowledgeSEEKER®, KnowledgeSTUDIO®, KnowledgeSERVER®, and Mining Manager® to new client-server architectures based on Microsoft.Net client technologies and supporting client-server configurations for popular Windows and Unix server platforms. Major releases of these products are scheduled for 2005.

Amortization / Interest Accretion

Amortization in 2004 comprised of amortization of capital assets (2004- $88,544; 2003 - $71,092) and the amortization of financing fees (2004 - $17,151; 2003 - $715) associated with the issue of the preferred shares in 2003.

The difference between the preferred share principal ($2,300,000) and the value allocated to the preferred shares ($1,989,500) is accreted as interest expense (2004 - $99,510; 2003 - $1,725) over the term of the preferred shares. The effective interest rate, including dividends, for the liability component is 11.9%.

Other Income

In 2004, proceeds from the settlement agreement with TRIFOX, net of collection fees, were $55,724 (2003 - $58,045). Repayment amounts are based upon TRIFOX revenue and are expected to continue for another 6 years at current levels of repayment. See note 13 to the 2004 consolidated financial statements.

Foreign Exchange

Note 1 to the 2004 consolidated financial statements outlines the Company's accounting policy with respect to foreign exchange. The following table reflects the weighted average foreign exchange rates between the Canadian dollar and the two main foreign currencies in which the Company conducts business. Significant changes in these foreign exchange rates impact the reported amounts of the Company's revenues and expenses. Foreign exchange losses in 2004 were $152,981 (2003 – $317,252).

The Company sells software and services in both Untied States dollars and other currencies while maintaining its primary base of business operations and source of operating expenses in Canada. These factors give rise to the risk that its earnings, cash flows and the value of assets held in United States Dollars may be adversely impacted by fluctuations in foreign exchange rates. 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.

The Company enters into foreign exchange forward contracts to minimize its exposure to fluctuations in foreign currency exchange rates. These derivative contracts do not qualify for hedge accounting and therefore the contracts are recorded at fair value at the balance sheet dates and with the corresponding gain/loss recorded in the consolidated statements of loss. The Company does not enter into foreign exchange forward contracts for speculative purposes.

As at November 30, 2004, the Company had two outstanding foreign exchange forward contracts representing commitments to sell US$500,000 in exchange for Canadian dollars on each of June 30, 2005 and December 31, 2005. As at November 30, 2003, the Company had no outstanding foreign exchange forward contracts.

12 month average year ended	**November 30, 2004**	**November 30, 2003**	**Change**
1 U.S dollar equals Canadian dollars	1.3074	1.4216	(8.0)%
1 British pound equals Canadian dollars	2.3794	2.3023	3.3%

12 month average year ended	**November 30, 2003**	**November 30, 2002**	**Change**
1 U.S dollar equals Canadian dollars	1.4216	1.5718	(9.6)%
1 British pound equals Canadian dollars	2.3023	2.3421	(1.7)%

As at	**November 30, 2004**	**November 30, 2003**	**Change**
1 U.S dollar equals Canadian dollars	1.1961	1.3126	(8.9)%
1 British pound equals Canadian dollars	2.2268	2.2197	0.3%

Special Charges

On May 31, 2004, the Company restructured its operations and terminated nine employees to re-align its on-going operating costs. As at May 31, 2004, a provision of $125,646 was made for the termination and lay-off associated with these nine employees – seven in research and development, one in sales and one in administration. As at November 30, 2004, the Company had paid a total of $108,413 and the remaining $17,233 is expected to be paid before February 28, 2005.

Summary of Quarterly Results

Unaudited (000's)	**4th Quarter**		**3rd Quarter**		**2nd Quarter**		**1st Quarter**	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Revenues	**$1,661**	$822	**$1,662**	$1,065	**$1,444**	$1,221	**$1,306**	$1,434
Gross margin	**1,654**	817	**1,654**	1,061	**1,415**	1,204	**1,301**	1,432
Sales and Marketing, General and Administration and Research and Development expenses	**1,505**	1,205	**1,411**	1,124	**1,624**	1,262	**1,532**	1,276
Operating income (loss)	**149**	(388)	**243**	(63)	**(209)**	(58)	**(231)**	156
Foreign exchange losses, Special charges, Financing expenses, Amortization and Other income	**(219)**	(78)	**(155)**	(37)	**(186)**	(153)	**(29)**	(72)
Income before income taxes	**(70)**	(466)	**88**	(100)	**(395)**	(211)	**(260)**	84
Recovery of future income taxes	**125**	125	-	-	-	-	-	-
Net Income (loss)	**$ 55**	$ (341)	**$ 88**	$ (100)	**$ (395)**	$ (211)	**$ (260)**	$ 84
Loss per share	**$ 0.00**	$ (0.01)	**$ 0.00**	$ (0.00)	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ 0.00

Revenues in any quarter are dependent on orders received and licenses renewed in that quarter. In addition, the timing and amount of the Company's revenues are affected by a number of factors that make estimation of operating results before the end of a quarter uncertain.

Sales and Marketing, General and Administration and Research and Development expenses are planned based upon anticipated revenues. In 2004, the Company increased travel and on site customer visits. In 2005, increased travel and on site customer visits with the expressed goal of better understanding our customer needs is expected to continue. In 2004, the Company engaged a third party consultant to provide strategic sales and marketing services. Including the value assigned to warrants, such expenses were approximately $150,000. The Company may in future use external consultants for strategic, advisory and operational purposes.

With the exception of foreign exchange gains (losses) and special charges, financing expenses and amortization expense are consistent quarter to quarter. Foreign exchange gains (losses) are a continuing exposure for the Company and in the fourth quarter the company incurred an exchange loss of $160,743. See separate discussion outlining the Company's foreign exchange strategy. Other income relates to Trifox and such income is anticipated to be received at the end of the second and fourth quarters (see note 13 to the 2004 consolidated financial statements). There is no guarantee that such income will be received. In the second quarter, the Company recorded a one-time charge related to restructuring (see note 14 to the 2004 consolidated financial statements).

Liquidity and Capital Resources

Cash and cash equivalents as at November 30, 2004 were $2,721,348 (2003 - $3,261,259). At the year-end, accounts receivable were $1,497,344 (2003 – $1,418,134). The decline in cash balances resulted from the purchase of capital assets (2004 - $142,625; 2003 - $97,307), payment of preferred dividends (2004 - $141,923; 2003 – nil) and termination amounts associated with restructuring and realigning the Company's business to focus on analytics solutions (2004 - $108,413; 2003 - nil). The remainder of the decline ($143,950) resulted from the use of cash to invest in business expansion and support revenue growth.

Accounts payable and accrued liabilities as at November 30, 2004 were $578,808 (2003 - $260,904). The increase is primarily due to an increase in variable compensation linked to revenues and company performance. In May 2004, the Company restructured its operations and at the year-end, the company had $17,233 unpaid termination costs (see note 14 to the consolidated financial statements).

As at November 30, 2004, the Company's working capital was $1,620,006 compared to $2,990,081 as at November 30, 2003. The decrease resulted from the use of cash in operations combined with an increase in ordinary course business liabilities and liabilities associated with the preferred shares. In November 2005, the Company has the first redemption of the preferred shares ($575,000). The Company currently intends to finance the repayment through operating cashflow.

As at November 30, 2004, deferred revenue, current and long-term totaled $1,403,947 (2003 - $1,738,430). The decrease in deferred revenue resulted from the completion and delivery during the year of prepaid services delivered to customers and partners. While the amount of pre-billed services declined, the value of signed services contracts for future delivery and unbilled service contracts which are not reflected in either the balance sheet or income statement increased.

At November 30, 2004, the Company had share capital of $13,805,813 (2003 - $13,685,431) and a deficit of $13,604,387 (2003 - 13,092,300). The increase in share capital is attributable to the exercise of stock options at various times throughout 2004 (see note 7 to the consolidated financial statements). The increase in the deficit of $512,087 is attributable to the net loss in 2004 (2003 increase attributable to a net loss of $568,776).

Commitments and Obligations

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. During 2004, the Company repaid $17,784 (2003 – nil). In fiscal 2005, the Company estimates that it will repay $94,530.

Class A Preferred Shares

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.

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, at the option of the Company, in whole any time 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.

The dividend expense in 2004 was $161,000 (2003 – $7,499). The first redemption of the Series 1 in the amount of $575,000 takes place on November 14, 2005.

Leases

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

2005	$ 146,784
2006	149,086
2007	32,758
2008	7,724
	$ 336,352

Future minimum annual payments do not include the Company's share of premises business and realty taxes and other operating costs estimated to be $180,000 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 UK expense for 2005, not included above, is $94,000.

Financial and Other Instruments

Foreign exchange forward contracts are discussed under Results of Operations – Foreign Exchange.

Cash and cash equivalents include such items as bankers' acceptances carried at cost with maturities at acquisition of 90 days or less. The carrying values of accounts receivable, accounts payable and accrued liabilities and license fees payable 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.

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, 2004, one customer represented 10.8% of the balance. As at November 30, 2003, three customers represented 45.7% of the balance.

As at November 30, 2004, the allowance for doubtful accounts totalled $199,901 [2003 - $106,915], including a provision in general and administration expenses, of $97,736 against the Australia working capital loan [2003 – Nil].

Related Parties

As at November 30, 2004, annual and meeting fees payable to directors acting in their capacity as directors was $13,750 [2003 - $13,750]. For the year ended November 30, 2004, directors' fee expense was $45,000 [2003 - $45,000].

As at November 30, 2004, the Angoss Incentive Trust holds nil common shares in trust for future allocation [2003 – nil], holds employee notes of nil [2003 - $31,850], and owes the loan of nil to the Company [2003 - $31,850]. The employee notes are netted against share capital. During 2004, employee notes totalling $31,850 were forgiven.

In December 2003, the Company entered into a contract with a consulting company whose principals were investors in the Series 1 offering. During 2004, the Company incurred consulting fees of $105,172 (2003 – nil) with the consulting company. On signing the contract, the consulting company also received 380,000 warrants to purchase 380,000 common shares of the Company at $0.25 per share. The contract is cancellable on 30 days notice. 95,000 warrants vested on signing the contract and a further 95,000 warrants vest on each of August 31, 2004, November 30, 2004 and August 31, 2005. In the event the contract is cancelled, the warrants vest on a pro-rata basis to the date of cancellation. The warrants expire December 10, 2008. As at November 30, 2004, no warrants had been exercised. The total fair value assigned to the warrants, $49,400, will be expensed as the warrants vest. During 2004, the value assigned to the 285,000 warrants that vested, $44,651, was expensed. The value of the warrants 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	4.0%
Dividend yield	0.0%
Weighted average volatility factors of the expected market price of the Company's common shares	55.6%
Weighted average expected life of the warrants (in years)	2.5

As at November 30, 2004, officers, directors and employees of the Company hold 10.9% (2003 –15.2%) of the outstanding Series 1 offering and warrants and received their pro-rata share of dividends paid in 2004. During 2004, a Director sold his interest in the Series 1 and warrants to a third party, related to him.

Expected Effect of Implementing New Accounting Standards

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 and the fair value of stock options was determined using the Black-Scholes option pricing model. For employee stock options granted between November 30, 2002 and November 30, 2004, the pro forma the effect of such options on net income has been disclosed in the notes to the Consolidated Financial Statements. For periods prior to December 1, 2002, the Company recognized no compensation when stock or stock options were issued to employees.

Effective December 1, 2005, any remaining expense associated with options granted after December 1, 2002 and before December 1, 2004 will be reported in net income. As at November 30, 2004, the 2005 expense associated with such options is estimated to be $22,000. The amount of expense may be less than $22,000 if options are cancelled prior to vesting. For options granted after November 30, 2004, the fair value of such stock options, determined using the Black-Scholes option pricing model, will be expensed over the estimated term of the option.

Outlook

In 2005, the Company expects to continue to fund the expansion of its sales and marketing capability and to pursue higher growth business opportunities. The Company's overall business strategy for 2005 is to continue to focus on revenue growth. However, the business climate and outlook for 2005 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 2005, staff increases are expected to focus primarily on the hiring of additional qualified personnel in sales, services and solution delivery. This expansion is expected to occur in North America and in Europe.

Competition

In selling its predictive analytic tools and applications, the Company competes on the basis of the usability, functionality, performance, reliability, and connectivity of its software. The significance of each of these factors varies depending upon the anticipated use of the software and the analytical training and expertise of the customer. To a lesser extent, the Company competes on the basis of price and thus maintains pricing policies to meet market demand. The Company also offers flexible licensing arrangements to satisfy customer requirements.

Historically, the Company's success has been driven by highly usable interfaces, comprehensive analytical capabilities, efficient performance, consistent quality, connectivity capabilities, and widely recognized brand names. The Company considers its primary worldwide competitor in each of its targeted markets to be the larger and better-financed SAS Institute, although the Company believes that a significant percentage of the revenue of SAS is derived from offerings in areas other than predictive analytics.

In the market for datamining tools, the Company competes with offerings from SAS and SPSS, as well as from a large number of small organizations.

In the market for predictive analytic applications, the Company has entered into licensing and alliance agreements with larger software and services organizations such as Siebel Systems, PeopleSoft and Protiviti. While such agreements provide additional markets for the Company's products and solutions, the Company has no direct influence over partner sales processes and there can be no assurance that these partners will sell their applications incorporating the Company's software programs on a consistent basis, in volume, or at all.

In the future, the Company may face competition from other new entrants into its markets. The Company could also experience competition from companies in other sectors of the broader market for business intelligence software, such as providers of OLAP and analytical application software, as well as from companies in other sectors of the broader market for enterprise applications, who could add enhanced analytical functionality to their existing products. Some of these potential competitors have significant capital resources, marketing experience, and research and development capabilities. New competitive offerings by these companies or other companies could have a material adverse effect on the Company.

Intellectual Property

The Company attempts to protect its proprietary software with trade secret laws and internal nondisclosure safeguards, as well as copyrights and contractual restrictions on copying, disclosure and transferability that are incorporated into its software license agreements. The Company licenses its software only in the form of executable code, with contractual restrictions on copying, disclosures and transferability. The Company licenses its products to end-users on an annual basis by use of a license key that is delivered separate from the software itself.

The source code for all of the Company's products is protected as a trade secret. The Company has also entered into confidentiality and nondisclosure agreements with its key employees. Despite these restrictions, the possibility exists for competitors or users to copy aspects of the Company products or to obtain information which Company regards as a trade secret. The Company has applied for 2 patents with respect to its technology to date and is expecting to file a third patent with respect to products currently under development. However, judicial enforcement of copyright laws, patent laws and trade secrets may be uncertain, particularly outside of North America. Preventing unauthorized use of computer software is difficult, and software piracy is expected to be a persistent problem for the packaged software industry. These problems may be particularly acute in international markets.

The Company uses a variety of trademarks with its products. Management believes the following are material to its business:

- Angoss and the Angoss logo are registered trademarks used in connection with the Company's corporate branding;
- KnowledgeSEEKER, KnowledgeSTUDIO, KnowledgeSERVER and Mining Manager are registered trademarks and are used in connection with the product lines of the Company;
- Credit Risk Reporting & Analytics, FundGUARD, Claims & Payments Analysis and Telecom Marketing Analytics are trademarks used in connection with the Company's industry specific predictive analytics solution;
- "Discover. Predict. Act" and "Better Business Decisions. Every Day" are trademarks used in connection with the Company's corporate branding.

The Company has registered the trademarks in Canada and some of its trademarks in the United States and the United Kingdom.

Due to the rapid pace of technological change in the software industry, the Company believes that patent, trade secret, and copyright protection are less significant to its competitive position than factors such as the knowledge, ability, and experience of the Company's personnel, new research and development, frequent technology and product enhancements, name recognition and ongoing reliable technology maintenance and support.

The Company believes that its solutions, products, and trademarks and other proprietary rights do not infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not assert infringement claims in the future or that such claims will not have a material effect on the Company if they are decided adversely to the Company.

Impacts of Fluctuations In Revenues

The Company's quarterly operating results fluctuate due to several factors, including:

- The cyclical nature of customer purchases of enterprise software systems and tools which impacts on quarterly results;
- Purchasing schedules, budgets and spending patterns of its customers;
- Changes in foreign currency exchange rates;
- The timing of solution implementations;
- Changes in mix of product and solutions revenues; and
- General economic conditions.

In addition, to the extent that the Company is successful in expanding its analytical solutions business, the changing relative proportion of software and services revenues involved in analytical solution sales, as well as schedules for solution delivery and associated recognition of software and services revenues, will impact on the timing of recording and reporting revenue on a quarterly basis.

The Company has historically operated with very little backlog because of its focus on sales of analytical tools that have generally been shipped as orders are received. As a result, revenues in any quarter are dependent on orders received and licenses renewed in that quarter. In addition, the timing and amount of the Company's revenues are affected by a number of factors that make estimation of operating results before the end of a quarter uncertain.

Although the Company endeavours to link operating expenses with revenue forecasts, many operating expenses are fixed and planned based on revenue expectations. If 2005 revenues fall below expectations, operating results may be adversely affected because the Company's expense levels are to a large extent based on these forecasts. Accordingly, the Company believes that quarter-to-quarter comparisons of its results of operations may not be meaningful and should not be relied upon as an indication of future performance. The Company cannot provide assurance that profitability will be achieved on a quarterly or annual basis in the future.

Outstanding Share Data

Share capital consists of the following:	Authorized	Outstanding	Conversion rate
Common Shares	Unlimited	39,466,223	-
Preferred Shares	2,300,000	2,300,000	-
Warrants – 1 warrant is convertible to 1 Common share		3,450,000	$0.30
Warrants – 1 warrant is convertible to 1 Common share		380,000	$0.25
Options – 1 option is convertible to 1 Common share	5,700,000	4,165,747	At rates varying from $0.12 to $1.30 per option

Additional information about the Company's share capital is detailed in notes 6 and 7 to the consolidated financial statements.

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

Chief Financial Officer

January 26, 2005.

AUDITORS' REPORT

To the Shareholders of
Angoss Software Corporation

We have audited the consolidated balance sheets of **Angoss Software Corporation** as at November 30, 2004 and 2003 and the consolidated statements of loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 Company as at November 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
January 26, 2005.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

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Angoss Software Corporation

CONSOLIDATED BALANCE SHEETS

As at November 30
(stated in Canadian dollars)

	2004	2003
ASSETS		
Current		
Cash and cash equivalents	**$ 2,724,348**	$ 3,261,259
Accounts receivable *[notes 2 and 12]*	**1,497,344**	1,418,134
Prepaid expenses	**65,575**	77,285
Total current assets	**4,287,267**	4,756,678
Deferred financing costs *[note 6]*	**67,891**	85,042
Capital assets, net *[note 3]*	**175,150**	121,069
	$ 4,530,308	$ 4,962,789
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[notes 2 and 14]*	**$ 578,808**	$ 260,904
Dividends payable on Preferred shares *[note 6]*	**26,576**	7,499
Current portion of repayable contribution *[note 12]*	**94,530**	47,265
Current redeemable portion of Preferred shares *[note 6]*	**575,000**	—
Current portion of deferred revenue	**1,392,347**	1,450,929
Total current liabilities	**$ 2,667,261**	1,766,597
Future tax liabilities *[note 9]*	**—**	125,000
Repayable contribution *[note 12]*	**134,286**	199,335
Deferred revenue	**11,600**	287,501
Preferred shares *[note 6]*	**1,515,735**	1,991,225
Total liabilities	**4,328,882**	4,369,658
Commitments and contingencies *[notes 4 and 5]*		
Shareholders' equity		
Share capital *[note 7]*	**13,805,813**	13,685,431
Deficit	**(13,604,387)**	(13,092,300)
Total shareholders' equity	**201,426**	593,131
	$ 4,530,308	$ 4,962,789

See accompanying notes

On behalf of the Board:

John Gardner
Director

Eric Apps
Director

Angoss Software Corporation

CONSOLIDATED STATEMENTS OF LOSS

Years ended November 30
(stated in Canadian dollars)

	2004	2003
Revenue *[notes 8 and 11]*	**$ 6,073,494**	$ 4,541,717
Cost of goods sold	**49,366**	27,916
	6,024,128	4,513,801
Costs and expenses		
Sales and marketing	**3,274,187**	2,328,294
General and administration *[note 2]*	**1,601,050**	1,328,726
Research and development expenditures, net *[note 12]*	**1,196,870**	1,210,319
	6,072,107	4,867,339
Loss before the following	**(47,979)**	(353,538)
Other income *[note 13]*	**55,724**	58,045
Special charges *[note 14]*	**(125,646)**	—
Amortization of capital assets	**(88,544)**	(71,092)
Amortization of deferred financing fees *[note 6]*	**(17,151)**	(715)
Interest accretion on Preferred shares *[note 6]*	**(99,510)**	(1,725)
Dividend expense on Preferred shares *[note 6]*	**(161,000)**	(7,499)
Foreign exchange loss	**(152,981)**	(317,252)
Loss before income taxes	**(637,087)**	(693,776)
Future income tax recovery *[note 9]*	**125,000**	125,000
Net loss for the year	**$ (512,087)**	$ (568,776)
Basic and diluted (loss) per share *[note 7]*	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding *[note 7]*		
Basic	**39,221,687**	38,606,666
Diluted	**39,221,687**	38,606,666

See accompanying notes

CONSOLIDATED STATEMENTS OF DEFICIT

Years ended November 30
(stated in Canadian dollars)

	2004	2003
Deficit, beginning of year	**$ (13,092,300)**	$ (12,523,524)
Net loss for the year	**(512,087)**	(568,776)
Deficit, end of year	**$ (13,604,387)**	$ (13,092,300)

See accompanying notes

2004

Angoss Software Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30
(stated in Canadian dollars)

	2004	2003
OPERATING ACTIVITIES		
Net loss for the year	**$ (512,087)**	$ (568,776)
Adjustments to reconcile net loss to cash provided by (used in) operating activities		
Future income tax	**(125,000)**	(125,000)
Amortization of capital assets	**88,544**	71,092
Amortization of deferred financing costs	**17,151**	715
Interest accretion on Preferred shares	**99,510**	1,725
Stock-based compensation and advisory services	**100,101**	—
Cash used in continuing operations	**(331,781)**	(620,244)
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	**(79,210)**	2,171
Decrease in prepaid expenses	**11,710**	22,993
Increase (decrease) in accounts payable and accrued liabilities	**321,698**	(62,130)
(Decrease) increase in deferred revenue	**(334,483)**	786,267
Increase in dividends payable on Preferred shares	**19,077**	7,499
Increase in license fees payable	**(3,794)**	1,057
Cash provided by (used in) operating activities	**(396,783)**	137,613
INVESTING ACTIVITIES		
Purchase of capital assets	**(142,625)**	(97,307)
Cash used in investing activities	**(142,625)**	(97,307)
FINANCING ACTIVITIES		
Issuance of Preferred shares	**—**	2,300,000
Preferred share issuance costs	**—**	(85,757)
Repayable contribution	**(17,784)**	246,600
Issuance of common shares on exercise of options	**20,281**	42,775
Issuance of private placement common shares	**—**	50,000
Repayment of share purchase loans	**—**	5,625
Cash provided by financing activities	**2,497**	2,559,243
Net increase (decrease) in cash and cash equivalents during the year	**(536,911)**	2,599,549
Cash and cash equivalents, beginning of year	**3,261,259**	661,710
Cash and cash equivalents, end of year	**$ 2,724,348**	$ 3,261,259
Supplemental cash flow Information		
Dividends and Interest paid	**$ 141,923**	$ —

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2004
[in Canadian dollars unless otherwise indicated]

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of Angoss Software Corporation [the "Company"] have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"]. The significant accounting policies are as follows:

Basis of Consolidation

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 ["AIT"], a business trust governed by the laws of Ontario *[note 10]*. 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 software products. 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. Services revenue is earned through fees for data mining consulting, engineering and user training services. License and services 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 products to their customers. Services revenue earned from partners is 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 are 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.

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 capital 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 the Company 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.

The Company enters into foreign exchange forward contracts to minimize its exposure to fluctuations in foreign currency exchange rates. These derivative contracts do not qualify for hedge accounting and therefore the contracts are recorded at fair value at the balance sheet dates and with the corresponding gain/loss recorded in the consolidated statements of loss. The Company does not enter into foreign exchange forward contracts for speculative purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2004
[in Canadian dollars unless otherwise indicated]

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 on the exercise of an option 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 Canadian 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 period. Actual amounts may differ from those estimates.

Earnings (Loss) per Share

Earnings (loss) 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, 2004, one customer represented 10.8% of the balance. As at November 30, 2003, three customers represented 45.7% of the balance.

The Company has entered in an agreement with a customer, Angoss Software Australia Pty. Ltd. ("Australia"), wherein the Company is entitled to receive up to a 50% interest in the revenue generated by Australia. In exchange for its interest, the Company has granted Australia the exclusive right to represent and distribute the Company's software, services and related solutions. The Company's share of the revenue is recognized as earned by Australia and is re-invested in Australia as a non-interest bearing working capital loan. Subject to certain terms and conditions, the agreement otherwise expires on December 1, 2006.

As at November 30, 2004, the allowance for doubtful accounts totalled $199,901 [2003 - $106,915], including a provision in general and administration expenses, of $97,736 against the Australia working capital loan [2003 – Nil].

Currency Risk

The Company sells software and services in both Canadian and foreign currencies that give 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 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.

As at November 30, 2004, the Company had two outstanding foreign exchange forward contracts representing commitments to sell US$500,000 in exchange for Canadian dollars on each of June 30, 2005 and December 31, 2005. On delivery, the Company will receive the Canadian dollar equivalent determined at the spot rate in effect on the day of settlement subject to the following conditions:

(a) if the spot rate on the settlement date is less than $1.32, the amount will be determined by using the spot rate on the settlement date, such spot rate not to be less than $1.21; and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2004
[in Canadian dollars unless otherwise indicated]

(b) if the spot rate on the settlement date is greater than $1.32, the settlement will be made at $1.21.

The spot US dollar to Canadian dollar exchange rate as at November 30, 2004 was $1.1904. These contracts do not qualify for hedge accounting treatment and are recorded at their fair value at each reporting period with the gain or loss being included in foreign exchange gain/(loss) on the consolidated statements of loss. In 2004, a gain of $19,600 on these contracts has been recorded in the consolidated statements of loss (2003 – nil).

As at November 30, 2003, the Company had no outstanding foreign exchange forward contracts.

As at November 30, 2004, 66.8% [2003 – 27.0%] of cash and cash equivalents and 64.8% [2003 – 79.5%] of accounts receivable are denominated in foreign currencies. As at November 30, 2004, 21.9% [2003 – 17.9%] of accounts payable and accrued liabilities and license fees payable are denominated in foreign currencies.

Fair Value The carrying values of accounts receivable and accounts payable and accrued liabilities 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:

	2004		
	Cost	**Accumulated Amortization**	**Net Book Value**
Computer equipment	**$ 687,323**	**$ 572,038**	**$ 115,285**
Duplication equipment	**7,431**	**6,794**	**637**
Equipment under capital lease	**229,079**	**229,079**	**—**
Office furniture and equipment	**169,842**	**145,011**	**24,831**
Computer software	**287,012**	**252,615**	**34,397**
Leasehold improvements	**228,796**	**228,796**	**—**
	$ 1,609,483	**$ 1,434,333**	**$ 175,150**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2004
[in Canadian dollars unless otherwise indicated]

4. COMMITMENTS

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

2005	$ 146,784
2006	149,086
2007	32,758
2008	7,724
	$ 336,352

Future minimum annual payments do not include the Company's share of premises business and realty taxes and other operating costs estimated to be $180,000 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 UK expense for 2005, not included above, is $94,000.

5. CONTINGENCIES

In the ordinary course of its business activities, the Company may be contingently liable with respect to litigation and other claims made by or on behalf of current or former employees, agents, customers, suppliers, partners, contractors or other persons, as well as federal, state, local and municipal taxation and other governmental and regulatory authorities. Management believes that adequate provision has been recorded in the accounts where required with respect to such claims, based on such considerations as the nature and scope of its business operations, the basis of such claims and remedies available to the Company with respect to them, the reasonableness and likelihood of such claims, exposure estimates for such claims, the Company's past experience with respect to such claims, and similar factors. It is reasonably possible that management estimates of such claims may differ materially from the amounts recorded in the consolidated financial statements.

6. PREFERRED SHARES

	2004	2003
Authorized		
Unlimited Class A Preferred shares, issuable in series		
Issued		
2,300,000 Class A Preferred shares, Series 1	**$ 2,090,735**	$ 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.

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 between the Series 1 principal ($2,300,000) and the value allocated to the Preferred shares ($1,989,500) is accreted as an interest expense over the term of the Series 1. The effective interest rate, including dividends, for the liability component is 11.9%.

The carrying value of the Series 1 is determined as follows:	**2004**	2003
Stated value of Series 1 issued	**$ 2,300,000**	$ 2,300,000
Less amount allocated to warrants	**(310,500)**	(310,500)
Amount allocated to Series 1	**1,989,500**	1,989,500
Add cumulative interest accretion expense	**101,235**	1,725
Total liability	**2,090,735**	1,991,225
Less current portion to be redeemed	**(575,000)**	—
Long-term liability	**$ 1,515,735**	$ 1,991,225

[in Canadian dollars unless otherwise indicated]

During 2004, the interest accretion on Series 1 was $99,510 (2003 – 1,725) and the dividend expense was $161,000 (2003 – $7,499).

In 2003, the legal and financial advisor fees associated with the issue, $85,757, were 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, at the option of the Company, in whole any time 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.

7. SHARE CAPITAL

Share capital consists of the following:		**2004**	2003
Authorized			
Unlimited common shares			
Preferred shares *[note 6]*			
Issued			
Common shares	39,313,472 issued (2003 – 39,079,930 issued)	**$ 13,447,062**	$ 13,406,781
Employee notes *[note 10]*		**—**	(31,850)
		13,447,062	13,374,931
Warrants	3,450,000 warrants at $0.30	**310,500**	310,500
	380,000 warrants at $0.25	**44,651**	—
		355,151	310,500
Contributed surplus		**3,600**	—
		$ 13,805,813	$ 13,685,431

Issued Common Shares

During 2004, the Company issued 133,542 common shares on the exercise of stock options at prices ranging from $0.15 to $0.20 per common share, for a total of $20,281.

Direct awards of stock to employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. During 2004, the Company issued 100,000 common shares to an officer as part of an employment contract. The fair value of the common shares is based on the market price ($0.20 per common share) on the date the contract was signed. Accordingly, the fair value of $20,000 on the awarded common shares was charged to operations, with an offsetting credit to share capital.

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, for a total of $42,775. A further 250,000 common shares, at $0.20 per common share, for a total of $50,000, were issued to the Company's financial advisor in connection with the Series 1 financing *[note 6]*.

Warrants

During 2004, the Company issued 380,000 warrants to purchase 380,000 common shares of the Company at $0.25 per share in connection with a consulting services contract. The contract is cancellable on 30 days notice. 95,000 warrants vested on signing the contract and a further 95,000 warrants vest on each of August 31, 2004, November 30, 2004 and August 31, 2005. In the event the contract is cancelled, the warrants vest on a pro-rata basis to the date of cancellation. The warrants expire December 10, 2008. As at November 30, 2004, no warrants had been exercised. Principals of the consulting company were investors in the Series 1 financing *[note 6]* and have also provided consulting services *[note 10]*. The total fair value assigned to the warrants, $49,400, will be expensed as the warrants vest. During 2004, the value assigned to the 285,000 warrants that vested, $44,651, was expensed. The value of the warrants was estimated at the date of their issue using the Black-Scholes option pricing model with the following assumptions:

[in Canadian dollars unless otherwise indicated]

Weighted average risk-free interest rate	4.0%
Dividend yield	0.0%
Weighted average volatility factors of the expected market price of the Company's common shares	55.6%
Weighted average expected life of the warrants (in years)	2.5

On November 14, 2003, the Company issued 3,450,000 warrants to purchase 3,450,000 common shares of the Company at $0.30 per share in connection with the issue of Series 1 on that date *[note 6]*. The warrants expire November 13, 2008. As at November 30, 2004, 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)	2.5

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, 2004, the software was not released. No value has been assigned to the warrants.

Stock-Based Compensation Plans

At November 30, 2004, the Company has two active stock-based compensation plans, which are described below.

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, 2004, no shares had been acquired [2003 – nil].

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 shares 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, 2004 and 2003 and changes during the years ended on those dates is presented below:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2004
[in Canadian dollars unless otherwise indicated]

	2004		2003	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**4,669,639**	**$0.20**	2,885,623	$0.22
Granted	**1,882,500**	**0.18**	2,772,500	0.13
Exercised	**(133,542)**	**0.15**	(327,834)	0.13
Cancelled	**(3,226,163)**	**0.18**	(660,650)	0.16
Outstanding, end of year	**3,192,434**	**$0.22**	4,669,639	$0.20
Options vested, at end of year	**2,752,188**		1,982,118	

Non-executive directors of the Company have been granted 112,500 options to acquire 112,500 common shares of the Company at $0.14 per share. An officer and a director of the Company have exercised a total of 100,000 options to acquire common shares of the Company at $0.15 per share.

The following table summarizes information about the stock options outstanding as at November 30, 2004:

Exercise price	**Options outstanding**	**Remaining Contractual life [months]**	**Options vested**
0.12	110,000	39	**74,583**
0.13	1,281,494	55 to 58	**1,015,244**
0.15	349,000	31	**337,088**
0.19	257,500	42	**230,833**
0.20	373,440	1 to 25	**373,440**
0.28	30,000	50	**30,000**
0.32	140,000	50	**40,000**
0.33	185,000	19	**185,000**
0.33	210,000	1	**210,000**
0.35	66,000	17	**66,000**
0.50	150,000	15	**150,000**
1.30	40,000	9	**40,000**
	3,192,434		**2,752,188**

Employees and Directors

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. 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 the Black-Scholes option pricing model with the following assumptions for 2004:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2004
[in Canadian dollars unless otherwise indicated]

Weighted average risk-free interest rate	5.4%
Dividend yield	0.0%
Weighted average volatility factors of the expected market price of the Company's common shares	56.4%
Weighted average expected life of the options (in years)	2.5

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. For the year ended November 30, 2004, the Company's pro forma loss under Canadian GAAP would increase by $11,327 [2003 – net loss increase by $62,668]. Basic and diluted loss per share figures for the years ended November 30, 2004 and 2003 would not change from those reported. The weighted average fair value of stock options granted during the year ended November 30, 2004 was $0.07 [2003 – $0.08].

Non-Employees 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. Accordingly, the fair value of the options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. During 2004, the value assigned to 30,000 options granted to non-employees was $3,600 [2003 – nil]. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Weighted average risk-free interest rate	4.0%
Dividend yield	0.0%
Weighted average volatility factors of the expected market price of the Company's common shares	55.6%
Weighted average expected life of the options (in years)	2.5

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. Loss per share, for the years presented, were calculated using the weighted average number of common shares outstanding during each year as follows:

	2004	2003
Basic loss per share		
Net loss	**$ (512,087)**	$ (568,776)
Weighted average number of common shares outstanding	**39,221,687**	38,606,666
Basic loss per share	**$(0.01)**	$(0.01)
Diluted loss per share		
Net loss	**$ (512,087)**	$ (568,776)
Weighted average number of common shares outstanding	**39,221,687**	38,606,666
Dilutive effect of stock options and warrants	—	—
Weighted average number of common shares outstanding	**39,221,687**	38,606,666
Diluted loss per share	**$(0.01)**	$(0.01)

For 2004 and 2003, all warrants and stock options were excluded from the calculation of diluted loss per share because the effect would have been anti-dilutive.

Stated Capital The legal stated value of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. As at November 30, 2004, the legal stated capital of the common shares is $19,277,666 [2003 - $19,246,135].

The legal stated value of the Company's warrants differs from the carrying value reflected in these consolidated financial statements. The legal stated capital of the warrants is $0.02.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[in Canadian dollars unless otherwise indicated]

8. MAJOR CUSTOMERS

During 2004, no single customer accounted for more than 10% of revenue. During 2003, one customer accounted for 10.8% 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:

Future Tax Assets

	2004	2003
Non-capital loss carryforward benefit		
North America	**$ 517,000**	$ 590,000
Europe	**558,000**	549,000
Investment tax credit carry forward, net	**726,000**	718,000
Undeducted SR&ED pool inducements	**1,080,000**	1,007,000
Book depreciation in excess of CCA	**222,000**	233,000
	3,103,000	3,097,000
Valuation reserve	**(3,103,000)**	(3,097,000)
	$ Nil	$ Nil

Future Tax Liabilities

	2004	2003
Tax deductions in excess of accounting	**$ Nil**	$ 125,000

For Canadian tax purposes, the Company has non-capital losses of $1,236,000 that can be applied against future years' taxable income. The Company also has unclaimed SR&ED deductions of $3,090,000 that can be used to offset taxable income, and $1,080,000 in investment tax credits that can be applied against income taxes payable in the future.

For US tax purposes, the Company has net operating losses of $204,000 that have a 15-year carry forward period. These losses expire during 2005 through 2017.

For UK tax purposes, the Company has tax losses of $2,788,000 that may be carried forward indefinitely.

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:

	2004	2003
Tax at combined federal and provincial tax rates	**$ 233,301**	$ 254,061
Future tax assets not recognized	**(203,965)**	(383,973)
Benefit of prior years' tax losses not previously recognized	**80,085**	—
Permanent differences	**18,334**	237,011
Lower effective tax rates outside Canada	**(2,755)**	17,901
Future income tax recovery	**$ 125,000**	$ 125,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Loss Carryforwards As at November 30, 2004, the Company's non-capital losses and federal investment tax credits for Canadian tax purposes expire as follows:

	Tax Losses	Investment Tax Credits
2006	513,000	106,000
2007	124,000	56,000
2008	9,000	123,000
2009	—	188,000
2010	590,000	173,000
2011	—	12,000
2012	—	170,000
2013	—	151,000
2014	—	101,000
	$1,236,000	$1,080,000

Furthermore, the Company has capital losses of $426,000 for Canadian tax purposes that have no expiry date. These losses have not been recognized in the financial statements.

10. RELATED PARTY TRANSACTIONS

As at November 30, 2004, annual and meeting fees payable to directors acting in their capacity as directors was $13,750 [2003 - $13,750]. For the year ended November 30, 2004, directors' fee expense was $45,000 [2003 - $45,000].

As at November 30, 2004, the AIT holds nil common shares in trust for future allocation [2003 – nil], holds employee notes of nil [2003 - $31,850], and owes the loan of nil to the Company [2003 - $31,850]. The employee notes are netted against share capital. During 2004, employee notes totalling $31,850 were forgiven.

In December 2003, the Company entered into a contract with a consulting company whose principals were investors in the Series 1 offering. On signing the contract the consulting company received warrants *[note 7]*. During 2004, the Company incurred consulting fees of $105,172 (2003 – nil).

As at November 30, 2004, officers, directors and employees of the Company hold 10.9% (2003 –15.2%) of each of the outstanding Series 1 offering and warrants and received their pro-rata share of dividends. During 2004, a Director sold his interest in each of the Series 1 and warrants to a third party, related to him.

11. INFORMATION BY GEOGRAPHIC AREA

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

	2004			
	North America and Australia	**Europe**	**Eliminations**	**Consolidated**
Revenue				
Customers	**$ 5,094,743**	**$ 937,405**	**$ —**	**$ 6,032,148**
Interest income	**40,784**	**562**	**—**	**41,346**
Intercompany	**63,953**	**—**	**(63,953)**	**—**
	$ 5,199,480	**$ 937,967**	**$ (63,953)**	**$ 6,073,494**
Loss before income taxes	**$ (575,315)**	**$ (61,772)**	**$ —**	**$ (637,087)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2004
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	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 before income taxes	$ (604,021)	$ (89,755)	$ —	$ (693,776)

Capital assets	**North America**	**Europe**	**Eliminations**	**Consolidated**
November 30, 2004	**$ 147,726**	**$ 27,424**	$ —	**$ 175,150**
November 30, 2003	$ 104,825	$ 16,244	$ —	$ 121,069

12. RESEARCH AND DEVELOPMENT

Repayable Contribution

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.

Ontario Innovation Tax Credit

Research and development costs for the year ended November 30, 2004 and 2003 are recorded net of the Ontario Innovation Tax Credit ("OITC") as outlined below.

	2004	2003
Total research and development	**$ 1,246,870**	$ 1,373,441
Less OITC	**(50,000)**	(163,122)
Research and development, net	**$ 1,196,870**	$ 1,210,319

During 2004, research and development expenses otherwise incurred were reduced by $50,000 on account of fiscal 2004. During 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, 2004, accounts receivable include $139,255 on account of 2002, 2003 and 2004 OITC [2003 - $100,000 on account of 2002 and 2003 OITC). The balance of the OITC will be recognized in the year of receipt.

13. 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$230,124 [2003 - $285,991] remains outstanding. These remaining payments are linked to the revenue of TRIFOX and are collateralized by way of a US$1,150,619 Secured Promissory Note to be drawn down pro-rata based on the payments received. The Company 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.

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

14. SPECIAL CHARGES

On May 31, 2004, the Company restructured its operations and terminated nine employees to re-align its on-going operating costs. As at May 31, 2004, a provision of $125,646 was made for the termination and lay-off associated with these nine employees – seven in research and development, one in sales and one in administration. As at November 30, 2004, the Company had paid a total of $108,413 and the remaining $17,233 is expected to be paid before February 28, 2005.

15. COMPARATIVE FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

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Registrar and Transfer Agent

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

Exchange

The Toronto Venture Exchange
Trading Symbol: ANC

Quotes available at www.tsx.com

Annual and Special Meeting

Date: April 19th, 2005
Time: 4:30pm EST
Location: TSE Conference Centre,TSE Auditorium, 130 King St. West. Toronto, Canada

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