



ANGOS

Third Quarter Interim Results 2005

Angoss Software Corporation

## Dear Shareholders

Enclosed are the financial statements of Angoss for the third quarter and nine months of 2005.

Third quarter revenues were \$1,482,113, down 11% from 2004 third quarter results. Year to date, revenues of \$4,615,311 were up 5% from 2004 nine-month results.

While direct revenues have grown this year, this growth has been largely offset by lower partner reported revenues, as well as foreign exchange impacts of a strengthening Canadian dollar.

Angoss direct revenues were up 23% in year to date results and up 10% in the third quarter. Growth resulted primarily from analyst software sales, highlighted by the second quarter launch of KnowledgeSEEKER® 5, and expanding implementation services revenues from Angoss predictive analytics solutions deployments, primarily in the telecommunications and mutual funds industries.

Partner revenues are off more than 90% from prior year results, with a \$643,000 decline year to date, and a \$311,000 shortfall in the third quarter. Reduced partner reported revenues reflect lower reported licensing, development services, and implementation services revenues. We expect this trend to continue during the fourth quarter, with partner revenues off from the \$240,000 contributed to consolidated revenues in fiscal 2004. The continued appreciation of the Canadian Dollar, up 8% year over year compared with the US Dollar, also had a negative impact on revenue results.

Third quarter operating expenses were flat year over year. Operating expenses are down 3% in year to date results.

During the third quarter our direct analyst software business continued to expand, with some important new client additions, including two of the world's largest Internet services companies. We also continued to make progress in expanding our business to offer more comprehensive, higher value predictive analytics solutions, particularly in the telecom and mutual funds areas. Some of these highlights are outlined below:

### **Analyst Software Sales Growth Led By KnowledgeSEEKER® Launch**

During the third quarter and nine months ended August 31, 2005, the Company achieved 52.5% and 86.8% year over year growth, respectively, in KnowledgeSEEKER sales, as a result of positive customer reception to the recent release of KnowledgeSEEKER 5. Analyst software sales are up 7.4% in year to date results. Additional revenue growth is expected with the scheduled release of KnowledgeSTUDIO® 5.

### **Angoss Expands FundGUARD™ Deployments**

Following the completion of the third quarter, Angoss signed the charter user of the FundGUARD™ solution to an annual subscription, and signed two additional North American mutual fund clients to initial trial agreements. Specifically designed for the mutual fund and wealth management industry, FundGUARD uses advanced analytics to help mutual fund managers drive growth in assets under management while reducing redemption risk. Solution delivery on these contracts is scheduled to begin during the fourth quarter of 2005.

### **Angoss Telecom Marketing Analytics™ Deployment Expansion**

During the third quarter Angoss continued to expand use of its Telecom Marketing Analytics solution at two North American telecommunications clients supporting a growing range of consumer and small business marketing and sales analytics initiatives. Specifically designed for the communications industry, Angoss Telecom Marketing Analytics provides marketers with advanced analytics tools enabling strategic segmentation, product and service bundling, improved product mix analysis and forecasting, and churn reduction.

### **Angoss Claims & Payments Analytics™ Delivers Improved Surveillance and Detection Capability**

During the third quarter a major North American disability insurer completed its initial trial of the Angoss Claims & Payments Analysis solution, achieving significant improvements in the analysis and detection of required premium adjustments, and generating in excess of 10 times ROI on the Angoss proof of concept, while lowering associated audit and investigation costs. Angoss also completed initial proof of value deliveries to a major North American financial services intermediary, enabling improved surveillance, detection and compliance capabilities. Further phases in the deployment of Angoss predictive analytics solutions with these clients are expected to occur during future quarters.

Regards,



Eric Apps

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

Management's discussion and analysis of the interim unaudited consolidated financial position, operating results and cash flows of Angoss Software Corporation should be read in conjunction with the accompanying unaudited interim financial statements for the three and nine months ended August 31, 2005 and the audited annual financial statements for the year ended November 30, 2004 which are both prepared by management in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise stated. This MD&A has been prepared with all information available up to and including October 4, 2005.

In accordance with the new CICA requirements, effective December 1, 2004, the Company has adopted, on a retroactive basis without restatement of prior periods and an adjustment to the opening deficit, the fair value of accounting for employee stock based compensation and other stock based payments. See note 3 to the accompanying unaudited interim financial statements for the three and nine months ended August 31, 2005.

Some of the statements contained in this Interim 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.

### Three Year Financial Information Comparison

Stated in \$ Canadian	For the twelve months ended November 30,		
	2004	2003	2002
Revenue	\$ 6,073,494	\$ 4,541,717	\$ 4,475,281
Loss from continuing operations before income taxes	(637,087)	(693,776)	(182,779)
Future income tax recovery (expense)	125,000	125,000	(125,000)
Discontinued operations – SmartWare business	-	-	574,127
Net (loss) income 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	-

## Results of Operations

### Revenue

License revenues are derived from the direct sales of software and the earned portion of software license renewals. Professional services revenues are derived from implementation services associated with delivery of Angoss predictive analytics solutions. Partner revenues consist of licensee fees payable on the sale of Angoss product licenses by partners and professional services fees for implementation services provided to partners directly or as part of a partner's solution for a customer. Interest income earned is generated on surplus cash.

	Three months ended August 31,			Nine months ended August 31,		
	2005	2004	Increase (decrease)	2005	2004	Increase (decrease)
Licenses	\$ 1,191,396	\$ 1,179,601	1.0%	\$ 3,529,260	\$ 3,286,349	7.4%
Professional Services	251,283	137,063	83.3	985,389	391,935	151.4
Partners	24,046	335,704	(92.8)	57,765	701,408	(91.8)
Product Revenues	1,466,725	1,652,368	(11.2)	4,572,414	4,379,692	4.4
Interest	15,388	9,658	59.3	42,987	31,959	34.5
	<u>\$ 1,482,113</u>	<u>\$ 1,662,026</u>	<u>(10.8)%</u>	<u>\$ 4,615,311</u>	<u>\$ 4,411,651</u>	<u>4.6%</u>

During the three months ended August 31, 2005, license revenues increased 1%. During the nine months ended August 31, 2005, license revenues increased 7.4%. The increase is attributable primarily to a 52.5% increase in KnowledgeSEEKER sales during the three months ended August 31, 2005 and 86.8% increase during the nine months ended August 31, 2005 as a result of the introduction of a new major release of that product. KnowledgeSTUDIO revenues declined 11.4% during the three months ended August 31, 2005 but increased 2.5% during the nine months ended August 31, 2005. KnowledgeSTUDIO revenues are expected to increase with the introduction of a new major release of that product currently scheduled to occur during the fourth quarter of 2005.

Professional service revenues increased 83.3% during the three months ended August 31, 2005 and increased 151.4% during the nine months ended August 31, 2005. The increase is attributable primarily to expanded sales of Angoss predictive analytics solutions that combine both software and associated implementation services. In general, these solutions have a higher component of expert services, particularly during initial implementation phases. Implementation services revenues are expected to continue to grow reflecting the Company's continuing expansion of predictive analytics solutions targeting industry specific vertical application requirements of customers.

During the three months and nine months ended August 31, 2005 revenues derived from partners declined by 92.8% and 91.8%, respectively. Reduced partner reported revenues reflect lower reported licensing transactions and lower related implementation services. Declines in reported partner revenues may also be offset by review and reconciliation of royalties amounts payable for periods. This review is currently expected to occur during the fourth quarter of 2005.

Partner revenues are not subject to the direct control of the Company, are based on sales of partner products incorporating Company program modules and associated product and implementation services revenues, and occur during time periods that may not coincide with fiscal quarter ends of the Company. Partner 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. External factors impacting on partners themselves may also affect the ability of partners to successfully sell applications incorporating or bundling Angoss products and the resulting revenues derived by Angoss from these sales. Recent merger transactions involving the acquisition of both PeopleSoft Corporation and Siebel Systems, former licensees of Angoss products, by Oracle Corporation are illustrative. As a result of industry consolidation, declining partner reported revenues, and an inability of partners to achieve expected budget targets for revenue generation during 2005; the Company reviewed its partnering strategy in the third quarter. As a result of these developments, the Company's licensing agreements with both PeopleSoft Corporation and Siebel Systems have been terminated.

The Company currently operates primarily in two geographic markets: North America and Europe. During the three months ended August 31, 2005, 83.0% of revenue was generated in North American (including Australia) (2004 – 83.3%); 17.0% in Europe (2004 – 16.7%). During the nine months ended August 31, 2005, 83.2% of revenue was generated in North America (including Australia) (2004 – 83.2%); 16.8% in Europe (2004 – 16.8%).

## Operating Expenses

Operating expenses consist of sales and marketing ("S&M"), general and administration ("G&A") and research and development ("R&D") expenses.

	Three months ended August 31				Nine months ended August 31			
	2005		2004		2005		2004	
Compensation	\$ 1,054,120	73.9%	\$ 1,034,239	73.3%	\$ 3,166,943	71.4%	\$ 3,233,329	70.8%
Increase	1.9%				(2.1)%			
All other	371,352	26.1	376,873	26.7	1,266,173	28.6	1,332,943	29.2
(Decrease)	(1.5)%				(5.0)%			
	\$ 1,425,472	100.0%	\$ 1,411,112	100.0%	\$ 4,433,116	100.0%	\$ 4,566,272	100.0%
Increase	1.0%				(2.9)%			
Total Operating Expenses as % of Revenues	96.2%		84.9%		96.1%		103.5%	

Salary and benefit expenses ("compensation") are allocated to the respective operating expenses. A discussion of compensation and other expenses are detailed below.

## Sales and Marketing

For the three months ended August 31, 2005, S&M expenses were \$754,183, a decrease of 8.0% over the same period in 2004 - \$819,503. For the nine months ended August 31, 2005, S&M expenses were \$2,370,797, a decrease of 0.8% over the same period in 2004 - \$2,390,960.

	Three months ended August 31,				Nine months ended August 31,			
	2005		2004		2005		2004	
Compensation								
North America	\$ 443,309	58.8%	\$520,226	63.5%	\$ 1,431,059	60.3%	\$ 1,471,687	61.6%
Europe	174,479	23.1	164,165	20.0	473,226	20.0	404,178	16.9
Consulting fees	-		49	0.0	-		12,943	0.5
	617,788	81.9	684,440	85.5	1,904,285	80.3	1,888,808	79.0
Increase (decrease)	(9.7)%				0.8%			
Other								
North America	120,637	16.0	106,872	13.0	411,863	17.4	399,883	16.7
Europe	15,758	2.1	28,191	3.5	54,649	2.3	102,269	4.3
	136,395	18.1	135,063	16.5	466,512	19.7	502,152	21.0
Increase (decrease)	1.0%				(7.1)%			
	\$ 754,183	100.0%	\$ 819,503	100.0%	\$ 2,370,797	100.0%	\$ 2,390,960	100.0%
Increase	(8.0)%				(0.8)%			
Total S&M expenditures as a % of revenue	50.9%		49.3%		51.4%		54.2%	

Compensation is composed of salary, commissions and benefit costs associated with direct sales, marketing and services personnel. For the three months ended August 31, 2005, compensation costs declined 9.7% from 2004 third quarter costs with reductions in quota carrying sales representatives offset by increases in marketing and sales support compensation costs. Although sales and marketing expenses declined 8.0%, sales and marketing expenses represented 50.9% of revenues compared with 49.3% in 2004 primarily due to lower revenues. For the nine months ended August 31, 2005 compensation costs increased by 0.8% over the same period in 2004 with reductions in quota carrying sales representatives offset by increases in marketing and sales support compensation costs, and variable compensation costs associated with higher revenues. Sales and marketing expenses represented 51.4% of revenues compared with 54.2% of revenues year over year, primarily due to higher revenues and lower sales and marketing costs exclusive of compensation costs. At the end of the third quarter of 2005, 16 full-time people (2004 - 13) were assigned to this department in North America, including 6 quota carrying sales representatives (2004 - 8), 5 analytics services consultants (2004 - 6), 2 marketing personnel and 3 sales support personnel. At the end of the third quarter, two additional people in North America were also paid based solely on sales performance. Following completion of the

third quarter the number of quota carrying sales representatives was reduced to 5 persons. In Europe, 5 people (2004 – 5) were fully dedicated to this department and in 2004; the compensation associated with one additional person was allocated between G&A and S&M.

For the three months ended August 31, 2005, other sales and marketing expenses were flat year over year. For the nine months ended August 31, 2005 other sales and marketing expenses were down 7.1%, with increased North American expenses offset by lower European expenses. During 2005 the Company also increased its sales and marketing expenses associated with direct marketing, trade conferences and other lead generation activities. For the three and nine months ended August 31, 2005, 44.0% and 41.1% of other S&M expenses was spent on direct marketing activities including tradeshow and lead generation (2004 – 7.8% and 15.4% respectively). For the three and nine months ended August 31, 2005, 18.1% and 22.9% of other S&M expenses was spent on consulting services paid to third parties with respect to sales staff training and strategic marketing services (2004 – 28.8% and 43.2% respectively). The balance of other S&M expenses was devoted to travel and on site customer visits associated with gathering client requirements and preparing analytical solutions proposals linked to those requirements. These expenditure trends are expected to continue for the balance of 2005.

### General and Administration

For the three months ended August 31, 2005, G&A expenses were \$353,087, an increase of 0.8% over the same period in 2004 - \$350,234. For the nine months ended August 31, 2005, G&A expenses were \$1,167,150, a decrease of 2.9% over the same period in 2004 - \$1,201,604. For the three months ended August 31, 2005 G&A expenses represented 23.8% of revenues, up from 21.1% of revenues in the prior year primarily as a result of lower revenues in 2005. In year to date results, G&A expenses have declined from 27.2% of revenues to 25.3% of revenues, reflecting lower G&A expenses combined with higher revenues in 2005.

	Three months ended August 31,				Nine months ended August 31,			
	2005		2004		2005		2004	
Compensation								
North America	\$ 132,277	37.5%	111,226	31.8%	\$ 383,363	32.8%	\$ 377,766	31.4%
Europe	-		190	0.0	-		36,186	3.0
	<u>132,277</u>	<u>37.5</u>	<u>111,416</u>	<u>31.8</u>	<u>383,363</u>	<u>32.8%</u>	<u>413,952</u>	<u>34.4</u>
Increase	<b>18.7%</b>				<b>(7.4)%</b>			
Other								
North America and Australia	184,821	52.3	175,198	50.0	623,135	53.4	654,309	54.5
Europe	35,989	10.2	63,620	18.2	160,652	13.8	133,343	11.1
	<u>220,810</u>	<u>62.5</u>	<u>238,818</u>	<u>68.2</u>	<u>783,787</u>	<u>67.2</u>	<u>787,652</u>	<u>65.6</u>
Decrease	<b>(7.5)%</b>				<b>(0.5)%</b>			
	<u>353,087</u>	<u>100.0%</u>	<u>350,234</u>	<u>100.0%</u>	<u>\$ 1,167,150</u>	<u>100.0%</u>	<u>\$ 1,201,604</u>	<u>100.0%</u>
Increase	<b>0.8%</b>				<b>(2.9)%</b>			
Total G&A expenditures as a % of revenue	<b>23.8%</b>		21.1%		<b>25.3%</b>		27.2%	

At the end of the third quarter of 2005, 5 full-time people were assigned to this department in North America (2004 – 5). In 2005, European administration services have been contracted to a third party on an as needed basis. In 2004, European compensation represented the cost of one additional person allocated between G&A and S&M.

Other G&A expenses are made up of four main components – occupancy costs, professional fees, communication costs and ordinary course business expenses. For the three and nine months ended August 31, 2005, both the mix and amount of expense in North America were consistent with the same period in 2004 except for a reduction in 2005 in the amount of provision against the Australia working capital loan [nine months - 2005 - \$49,561; 2004 – \$87,773; three months – 2005 - \$12,807; 2004 - \$26,190]. In Europe, the increase in year to date G&A expense resulted from increased rent and recruiting fees.

## 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. As at August 31, 2005, there was 17 staff in R&D (2004 – 12).

Research and development costs represented 21.5% of revenues during the third quarter, up from 14.5% of revenues the prior year. In year to date results, research and development costs declined from 22.4% to 19.4% of revenues. The third quarter increase reflected increased headcount and associated compensation costs, as well as lower revenues in 2005.

For the three months ended August 31, 2005 compensation costs increased 27.5% over 2004 results, reflecting increased staffing to support the release of KnowledgeSEEKER® 5.0, as well as new product development associated with the Company's predictive analytics solutions business. Product development activities are now substantially completed with respect to the Company's analyst tools offerings, and the Company expects to continue to reduce development costs, other than those costs directly related to delivering and configuring revenue producing predictive analytics solutions, as a percentage of revenues. Year to date, compensation costs are 6.8% lower than 2004 nine month results. In May 2004, R&D operations were restructured and staff levels reduced to reflect the then staffing requirements. The Company also expects to continue to evaluate alternative approaches to completion of research and development requirements, including partnering, outsourcing and contract based development, to continue to lower development costs.

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.

	Three months ended August 31,				Nine months ended August 31,			
	2005		2004		2005		2004	
Compensation	\$ 304,055	95.6%	\$ 238,434	98.8%	\$ 879,295	98.2%	\$ 943,512	96.9%
Increase	27.5%				(6.8)%			
All other	14,147	4.4	2,941	1.2	15,874	1.8	30,196	3.1
Increase	381%				(47.4)%			
	\$ 318,202	100.0%	\$ 241,375	100.0%	\$ 895,169	100.0%	\$ 973,708	100.0
Increase (Decrease)	31.8%				(8.1)%			
Total R&D expenditures as a % of revenue	21.5%		14.5%		19.4%		22.1%	

During the nine months ended August 31, 2005, the Company's development activities were directed primarily towards the development and release of KnowledgeSEEKER® 5.0, the continued extension of the Angoss predictive analytics platform to support solutions and the development of additional tools to support the delivery of higher value predictive analytics solutions on both a software licensing and managed service delivery basis. 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. KnowledgeSEEKER® 5.0 was released in June 2005. Additional product releases are scheduled for 2005.
- Development and release of an improved product license management and delivery system.

## Amortization / Interest Accretion

Amortization in 2005 comprised of amortization of capital assets and the amortization of financing fees associated with the issue of the Preferred shares in 2003.

## Foreign Exchange

The Company sells software and services in both United 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 the effects of such fluctuations, 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 August 31, 2005, the Company had one outstanding foreign exchange forward contract representing commitments to sell US\$500,000 in exchange for Canadian dollars with an average remaining term to maturity of 111 days. As at August 31, 2005, the effective rate of exchange on the contract was 1.2100. As at August 31, 2005, a gain of \$5,500 was recorded on the contract.

3 month average for the quarter ended	August 31, 2005	August 31, 2004	Change
1 U.S dollar equals Canadian dollars	1.2223	1.3305	(8.1)%
1 British pound equals Canadian dollars	2.1852	2.4359	(10.3)%
9 month average for the quarter ended	August 31, 2005	August 31, 2004	Change
1 U.S dollar equals Canadian dollars	1.2287	1.3357	(8.0)%
1 British pound equals Canadian dollars	2.2818	2.4179	(5.6)%
As at	August 31, 2005	November 30, 2004	Change
1 U.S dollar equals Canadian dollars	1.1889	1.1904	(0.1)%
1 British pound equals Canadian dollars	2.1417	2.2268	(3.8)%

## Special Charges

On August 31, 2004, the Company restructured its operations and terminated nine employees to re-align its on-going operating costs. As at August 31, 2004, a provision of \$113,489 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. As at August 31, 2005, all amounts had been paid.

## Related Parties

During the three and nine months ended August 31, 2005 and 2004, related party transactions were similar to those outlined in the 2004 annual MD&A. The amount of such transactions was approximately equivalent to one quarter of such annual amounts.

## Commitments and Obligations

Commitments and contingencies outlined in the annual MD&A did not change during the third quarter of 2005.

## Outstanding Share Data

Share capital consists of the following:	Authorized	Outstanding	Conversion rate
Common Shares	Unlimited	39,499,723	-
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	3,919,547	At rates varying from \$0.12 to \$1.30 per option
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Additional information about the Company's share capital is detailed in notes 6 and 7 to the unaudited August 31, 2005 consolidated financial statements.

## Summary of Quarterly Results

Unaudited	<u>3rd Quarter</u>		<u>2nd Quarter</u>		<u>1st Quarter</u>		<u>4th Quarter</u>	
	2005	2004	2005	2004	2005	2004	2004	2003
(000's)								
Revenues	\$1,482	\$1,662	\$1,749	\$1,444	\$1,384	\$1,306	\$1,661	\$822
Gross margin	1,477	1,654	1,744	1,415	1,380	1,301	1,654	817
Sales and Marketing, General and Administration and Research and Development expenses	1,425	1,411	1,572	1,624	1,435	1,532	1,505	1,205
Operating income (loss)	52	243	172	(209)	(55)	(231)	149	(388)
Foreign exchange gains (losses), Special charges, Financing expenses, Amortization, Stock Option expense and Other income	(222)	(155)	(97)	(186)	3	(29)	(219)	(78)
Income (loss) before income taxes	(170)	88	75	(395)	(52)	(260)	(70)	(466)
Recovery of future income taxes	-	-	-	-	-	-	125	125
Net Income (loss)	\$ (170)	\$ 88	\$ 75	\$ (395)	\$ (52)	\$ (260)	\$ 55	\$ (341)
Income (loss) per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.01)

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. During the third quarter of 2005, the Company increased the amount spent on direct marketing and continued traveling to customer sites. Increased marketing activity, travel and on-site customer visits with the expressed goal of better understanding our customer needs are expected to continue. In 2004, the Company engaged a third party consultant who had invested in the preferred share financing to provide strategic sales and marketing services. Including the value assigned to warrants, the third party consultant expenses in the three months ended August 31, 2005 were approximately \$254 (2004 - \$42,000). Including the value assigned to warrants, the third party consultant expenses in the nine months ended August 31, 2005 were approximately \$4,749 (2004 - \$137,000). The Company continues to use various 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. See separate discussion outlining the Company's foreign exchange strategy. Other income relates to Trifox and such income was received at the end of the second and is anticipated to be received in the fourth quarter (see note 13 to the audited 2004 consolidated financial statements). There is no guarantee that such income will be received.

## Liquidity and Capital Resources

Cash and cash equivalents as at August 31, 2005 were \$2,013,359 (November 30, 2004 - \$2,724,348). As at August 31, 2005, accounts receivable were \$1,314,709 (November 30, 2004 - \$1,497,344). The decrease in cash balances

resulted from the purchase of capital assets (2005 - \$187,440), payment of Preferred share dividends (2005 - \$120,750), and a reduction in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities as at August 31, 2005 were \$311,049 (November 30, 2004 - \$578,808). The decrease is primarily due to the payment of variable compensation linked to revenues and company performance accrued at the year-end and paid during the first quarter.

As at August 31, 2005, the Company's working capital was \$1,512,037 (November 30, 2004 - \$1,620,006). In November 2005, the Company will meet the first redemption of the Preferred shares (\$575,000).

As at August 31, 2005, deferred revenue, current and long-term totaled \$935,298 (November 30, 2004 - \$1,403,947). The decrease in deferred revenue resulted from the completion and delivery during the period 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 that are not reflected in either the balance sheet or income statement remains consistent with prior quarters.

At August 31, 2005, the Company had share capital of \$14,027,744 (November 30, 2004 - \$13,805,813) and a deficit of \$13,880,923 (November 30, 2004 - 13,604,387). A portion of the increase in share capital is attributable to the exercise of stock options at various times throughout the first quarter. The increase in the deficit is attributable to the net loss during 2005. The balance of the increase in share capital and the deficit relates to the change in accounting policy as outlined in note 3 to the accompanying unaudited interim financial statements for the nine months ended August 31, 2005.

## 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 their 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 August 31, 2005, no one customer represented more than 10% of the accounts receivable balance (November 30, 2004, one customer represented 10.8% of the accounts receivable balance).

## Outlook

During the nine months ended August 31, 2005 revenues increased 4.4%. The Company has continued to expand direct software license sales and the number of signed contracts providing for future implementation of predictive analytics solutions consistent with its strategy of pursuing direct revenue growth through the delivery of higher value predictive analytics systems combining Angoss software programs and associated implementation services. However, growth in direct software license and services revenues has been offset by declines in partner revenues in year to date results, and with particular impact in the third quarter on a comparables basis to the prior year. In addition, additional amounts may be included in revenues as a result of a review and reconciliation of partner reported revenues with actual amounts due under the agreements.

The Company continues to focus on improving revenue growth and operating margin through the expansion of analyst software and predictive analytics solutions sales, while improving the productivity of existing sales and services personnel, continuing to expand marketing initiatives, maintaining an appropriate level of research and development relative to current and planned software offerings, and continuing to reduce general and administrative expenses.

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.

As a result of declining revenues from current partners, and broader industry consolidation trends that have impacted and are in future likely to continue to impact on oem and reseller channel based software distribution models, the

Company is also exploring alternatives to expand improve distribution of its products, expand revenue sources, and enhance shareholder value.

### ***Competition / Intellectual Property***

Competitive risks and risks associated with Intellectual Property outlined in the 2004 Annual MD&A did not change during the third quarter of 2005.

### ***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 impact 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 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 planned and fixed 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.

### **Other Information**

Other information related to the Company can be found on SEDAR at [www. SEDAR.com](http://www.SEDAR.com).

### **Notice to Shareholders**

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

# THIRD QUARTER INTERIM REPORT

## August 2005

### ANGOSS Software Corporation

#### Consolidated Balance Sheets

(Stated in Canadian dollars)

As at

	August 31, 2005 (unaudited)	November 30, 2004 (audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 4]</i>	\$ 2,013,359	\$ 2,724,348
Accounts receivable <i>[note 4]</i>	1,314,709	1,497,344
Prepaid expenses	90,122	65,575
<b>Total current assets</b>	<b>3,418,190</b>	<b>4,287,267</b>
Deferred financing costs <i>[note 6]</i>	55,027	67,891
Capital assets, net <i>[note 5]</i>	281,770	175,150
	<b>\$ 3,754,987</b>	<b>\$ 4,530,308</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[notes 4]</i>	\$ 311,049	\$ 578,808
Dividends payable on Preferred shares <i>[note 6]</i>	26,906	26,576
Current redeemable portion of preferred shares <i>[note 6]</i>	575,000	575,000
Current portion of repayable contribution	69,500	94,530
Current portion of deferred revenue	923,698	1,392,347
<b>Total current liabilities</b>	<b>1,906,153</b>	<b>2,667,261</b>
Repayable contribution agreement	108,009	134,286
Deferred revenue	11,600	11,600
Preferred shares <i>[note 6]</i>	1,582,404	1,515,735
<b>Total liabilities</b>	<b>3,608,166</b>	<b>4,328,882</b>
Contingencies <i>[note 11]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[notes 3, 6 &amp; 7]</i>	14,027,744	13,805,813
Deficit <i>[note 3]</i>	(13,880,923)	(13,604,387)
<b>Total shareholders' equity</b>	<b>146,821</b>	<b>201,426</b>
	<b>\$ 3,754,987</b>	<b>\$ 4,530,308</b>

See accompanying unaudited notes

On behalf of the Board:

<b>"John Gardner"</b>	<b>"Eric Apps"</b>
(Signed)	(Signed)
John Gardner	Eric Apps
Director	Director

# THIRD QUARTER INTERIM REPORT

## August 2005

### ANGOSS Software Corporation

#### Consolidated Statements of Income (Loss) and Deficit

(Unaudited, stated in Canadian dollars)

	Three Months ended		Nine Months ended	
	August 31, 2005	August 31, 2004	August 31, 2005	August 31, 2004
Revenue <i>[notes 8 and 10]</i>	\$ 1,482,113	\$ 1,662,026	\$ 4,615,311	\$ 4,411,651
Cost of goods sold	4,266	8,259	12,755	42,645
<b>Gross margin</b>	<b>1,477,847</b>	<b>1,653,767</b>	<b>4,602,556</b>	<b>4,369,006</b>
<b>Operating expenses</b>				
Sales and marketing	754,183	819,503	2,370,797	2,390,960
General and administration	353,087	350,234	1,167,150	1,201,604
Research and development, net	318,202	241,375	895,169	973,708
	<b>1,425,472</b>	<b>1,411,112</b>	<b>4,433,116</b>	<b>4,566,272</b>
<b>Income (loss) before the following</b>	<b>52,375</b>	<b>242,655</b>	<b>169,440</b>	<b>(197,266)</b>
Other income <i>[note 12]</i>	0	0	30,648	24,066
Special charges <i>[note 13]</i>	-	(12,157)	-	(125,646)
Amortization of capital assets	(30,158)	(23,864)	(80,820)	(63,489)
Amortization of deferred financing costs <i>[note 6]</i>	(4,288)	(4,288)	(12,864)	(12,864)
Interest accretion on Preferred shares <i>[note 6]</i>	(23,331)	(20,770)	(66,669)	(78,784)
Dividend expense on Preferred shares <i>[note 6]</i>	(40,470)	(40,470)	(121,080)	(120,970)
Foreign exchange (loss) gain	(95,812)	(53,395)	(2,792)	7,762
Stock option expense <i>[note 7]</i>	(28,771)	-	(63,333)	-
<b>Net income (loss) for the period</b>	<b>(170,455)</b>	<b>87,711</b>	<b>(147,470)</b>	<b>(567,191)</b>
Deficit, beginning of period	(13,710,468)	(13,747,202)	(13,604,387)	(13,092,300)
Cummulative adjustment for stock-based compensation <i>[note 3]</i>	-	-	(129,066)	-
Deficit, restated at beginning of period	(13,710,468)	(13,747,202)	(13,733,453)	(13,092,300)
<b>Deficit, end of period</b>	<b>\$ (13,880,923)</b>	<b>\$ (13,659,491)</b>	<b>\$ (13,880,923)</b>	<b>\$ (13,659,491)</b>
<b>Basic and diluted loss per share <i>[note 7]</i></b>	<b>\$ (0.00)</b>	<b>\$ 0.00</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>

Weighted average number of shares outstanding *[note 7]*

Basic	39,499,723	39,244,179	39,465,549	39,191,314
Diluted	39,499,723	39,244,179	39,465,549	39,191,314

See accompanying unaudited notes

# THIRD QUARTER INTERIM REPORT

## August 2005

### ANGOSS Software Corporation

### Consolidated Statements of Cash Flows

(Unaudited, stated in Canadian dollars)

	Three Months ended		Nine Months ended	
	August 31, 2005	August 31, 2004	August 31, 2005	August 31, 2004
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ (170,455)	\$ 87,711	\$ (147,470)	\$ (567,191)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities				
Interest accretion on Preferred shares	23,331	20,770	66,669	78,784
Amortization of capital assets	30,158	23,864	80,820	63,489
Amortization of deferred financing costs	4,288	4,288	12,864	12,864
Stock-based compensation and advisory services	29,025	5,902	68,082	94,956
	<b>(83,653)</b>	142,535	<b>80,965</b>	(317,098)
Changes in non-cash working capital balances				
(Increase) decrease in accounts receivable	126,897	(75,909)	182,635	93,831
(Increase) decrease in prepaid expenses	(26,845)	(2,250)	(24,547)	30,106
Increase (decrease) in accounts payable and accrued liabilities	(122,320)	(74,732)	(267,759)	92,583
Increase in dividends payable on Preferred shares	220	220	330	19,297
Increase (decrease) in deferred revenue	(213,406)	(203,151)	(468,649)	(512,407)
<b>Cash (used in) provided by operating activities</b>	<b>(319,107)</b>	(213,287)	<b>(497,025)</b>	(593,688)
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(60,822)	(26,885)	(187,440)	(128,836)
<b>Cash used in investing activities</b>	<b>(60,822)</b>	(26,885)	<b>(187,440)</b>	(128,836)
<b>FINANCING ACTIVITIES</b>				
Repayable contributions	(18,715)	-	(51,307)	-
Issuance of common shares on exercise of options	-	11,250	24,783	20,281
<b>Cash provided by financing activities</b>	<b>(18,715)</b>	11,250	<b>(26,524)</b>	20,281
<b>Net (decrease) increase in cash during the period</b>	<b>(398,644)</b>	(228,922)	<b>(710,989)</b>	(702,243)
Cash and cash equivalents, beginning of period	2,412,003	2,787,938	2,724,348	3,261,259
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,013,359</b>	\$ 2,559,016	<b>\$ 2,013,359</b>	2,559,016
<b>Supplemental cash flow information</b>				
Dividends and interest paid	\$ 40,250	\$ 40,250	\$ 120,750	\$ 101,673

See accompanying unaudited notes

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

### 1. DESCRIPTION OF BUSINESS

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.

### 2. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements have been prepared by management in Canadian dollars in accordance with Canadian generally accepted accounting principles [“GAAP”] with respect to the preparation of interim financial information. Accordingly they do not include all information and notes as required in the preparation of annual consolidated financial statements.

In the opinion of management, all adjustments considered necessary for the presentation of the Company’s financial position, results of operations and cash flows have been included. Operating results for the interim period are not necessarily indicative of the results to be expected for any subsequent quarter or for the full fiscal year ending November 30, 2005.

The accounting policies used in the preparation of these interim unaudited consolidated financial statements are consistent with those used in preparing the annual consolidated financial statements except for the change in the accounting policy noted below. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2004, as set out in the 2004 Annual Report. Note disclosures have been presented for material updates to the information previously reported.

### 3. CHANGE IN ACCOUNTING POLICY

**Stock-Based Compensation** The Company adopted the CICA Handbook Section 3870 “*Stock-based Compensation and Other Stock-based payments*” which establishes standards for the recognition, measurement and disclosure of stock based compensation and other stock based payments. Section 3870 requires the fair value based method of accounting be applied to all stock-based payments to non-employees, and to employee awards that are direct awards of stock that call for settlement in cash or other assets. Until November 30, 2004, the Section permitted the Company to continue its policy of recording no compensation expense for the grant of stock options to employees with the addition of pro-forma information. In accordance with the new CICA requirements, effective December 1, 2004, the Company has adopted, on a retroactive basis without restatement of prior periods and an adjustment to the opening deficit, the fair value of accounting for employee stock based compensation and other stock based payments. The effect of the retroactive adoption of this accounting policy was to increase each of the deficit and contributed surplus as at December 1, 2004 by \$129,066 respectively.

### 4. 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 August 31, 2005, no one customer represented more than 10% of the outstanding balance. As at November 30, 2004, one customer represented 10.8% of the balance.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

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.

**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 August 31, 2005, the Company had one (November 30, 2004 – 2) outstanding foreign exchange forward contract representing commitments to sell US\$500,000 (November 30, 2004 - US\$1,000,000) in exchange for Canadian dollars at a weighted average rate of \$1.2100 (November 30, 2004 - \$1.2100) and a weighted average remaining contractual life of 121 days (November 30, 2004 – 303 days). The spot US dollar to Canadian dollars exchange rate as at August 31, 2005 was \$1.1889 (November 30, 2004 – 1.1904).

These contracts do not qualify for hedge accounting treatment and are recorded at their fair value at the close of each reporting period with the gain or loss being included in foreign exchange gain/(loss) on the consolidated statements of loss. For the three and nine months ended August 31, 2005, a gain of \$16,050 and 10,550 respectively on these contracts were recorded in the consolidated statements of loss.

As at August 31, 2005, 66.3% [November 30, 2004 – 66.8%] of cash and cash equivalents and 72.3% [November 30, 2004 – 64.8%] of accounts receivable are denominated in foreign currencies. As at August 31, 2005, 23.0% [November 30, 2004 – 21.9%] 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.

### 5. CAPITAL ASSETS

Capital assets consist of the following:

	August 31, 2005		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 795,548	\$ 616,807	\$ 178,741
Duplication equipment	7,431	6,937	494
Equipment under capital lease	229,079	229,079	—
Office furniture and equipment	197,591	153,148	44,443
Computer software	338,478	280,386	58,092
Leasehold improvements	228,796	228,796	—
	<b>\$ 1,796,923</b>	<b>\$ 1,515,153</b>	<b>\$ 281,770</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

Capital assets consist of the following:

	November 30, 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	—
	<b>\$ 1,609,483</b>	<b>\$ 1,434,333</b>	<b>\$ 175,150</b>

### 6. PREFERRED SHARES

Information about the Company's Preferred shares is included in Note 6 of the Company's November 30, 2004 annual audited financial statements. A summary of the Preferred shares outstanding as at August 31, 2005 and November 30, 2004 is as follows:

	August 31, 2005	November 30, 2004
<b>Authorized</b>		
Unlimited Class A Preferred shares, issuable in series		
<b>Issued</b>		
2,300,000 Class A Preferred shares, Series 1	<b>\$ 2,157,404</b>	\$ 2,090,735

The carrying value of the Series 1 is determined as follows:

	August 31, 2005	November 30, 2004
Stated value of Series 1 issued	<b>\$ 2,300,000</b>	\$ 2,300,000
Less amount allocated to warrants	<b>(310,500)</b>	(310,500)
Amount allocated to Series 1	<b>1,989,500</b>	1,989,500
Add cumulative interest accretion expense	<b>167,904</b>	101,235
Total liability	<b>2,157,404</b>	2,090,735
Less current portion to be redeemed	<b>(575,000)</b>	(575,000)
Long-term liability	<b>\$ 1,582,404</b>	\$ 1,515,735

For the nine months ended August 31, 2005, the interest accretion on Series 1 was \$66,669 (2004 – \$78,784) and the dividend expense was \$121,080 (2004 – \$120,970). For the three months ended August 31, 2005, the interest accretion on Series 1 was \$23,331 (2004 – \$20,770) and the dividend expense was \$40,470 (2004 – \$40,470).

### 7. SHARE CAPITAL

Share capital consists of the following:

	August 31, 2005	November 30, 2004
<b>Authorized</b>		
Unlimited common shares		
Preferred shares [note 6]		
<b>Issued</b>		
Common shares	<b>\$ 13,471,845</b>	
August 31, 2005 – 39,499,723		
November 30, 2004 – 39,313,472		\$ 13,447,062

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

Warrants	3,450,000 warrants at \$0.30	<b>310,500</b>	310,500
	380,000 warrants at \$0.25	<b>49,400</b>	44,651
		<b>359,900</b>	355,151
Contributed surplus		<b>195,999</b>	3,600
		<b>\$ 14,027,744</b>	\$ 13,805,813

### Issued Common Shares

During the nine months ended August 31, 2005, the Company issued 186,251 common shares on the exercise of stock options at prices ranging from \$0.12 to \$0.15 per common share, for a total of \$24,783. During the three months ended August 31, 2005, no common shares were issued.

During the nine months ended August 31, 2004, 133,542 common shares were issued on the exercise of stock options at prices ranging from \$0.15 to \$0.20 per common share for a total of \$20,281. During the three months ended August 31, 2004, 75,000 common shares were issued on the exercise of stock options at \$0.15 per common share for a total of \$11,250.

Direct awards of stock to employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. During the nine months ended August 31, 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 stock was charged to operations, with an offsetting credit to share capital.

### Warrants

During the nine months ended August 31, 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. As at August 31, 2005, all warrants had vested (2004 – 237,500). The warrants expire December 10, 2008. As at August 31, 2005, 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 has been expensed. During the nine months ended August 31, 2005, the value assigned to 95,000 warrants (2004 – 142,500) that vested, \$4,749 (2004 - \$39,506), was expensed. During the three months ended August 31, 2005, the value assigned to 13 warrants (2004 – 47,500) that vested, \$254 (2004 - \$5,902), was expensed. The value of the warrants was estimated at the date of their issue using the Black-Scholes option-pricing model. The assumptions used to value the warrants are outlined in note 7 to audited financial statements for the year ended November 30, 2004.

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. The assumptions used to value the warrants are outlined in note 7 to audited financial statements for the year ended November 30, 2004.

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 August 31, 2005, the software was not released. No value has been assigned to the warrants.

### Stock-Based Compensation Plans

Information about the Company's two active stock-based compensation plans, Employee Share Purchase Plan ("ESSP") and Stock Option Plan, is included in Note 7 of the Company's November 30, 2004 annual audited financial statements.

As at August 31, 2005 and November 30, 2004, no shares had been acquired under the ESSP.

A summary of the Company's Stock Option Plan as at August 31, 2005 and November 30, 2004 and changes during the nine and twelve months ended on those dates respectively is presented below:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

	Nine months ended August 31, 2005		Twelve months ended November 30, 2004	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	3,192,434	\$0.22	4,669,639	\$0.20
Granted	1,790,000	0.16	1,882,500	0.18
Exercised	(186,251)	0.13	(133,542)	0.15
Cancelled	(880,136)	0.26	(3,226,163)	0.18
<b>Outstanding, end of period</b>	<b>3,916,047</b>	<b>\$0.19</b>	<b>3,192,434</b>	<b>\$0.22</b>
<b>Options vested, at end of period</b>	<b>2,124,380</b>		<b>2,752,188</b>	

As at August 31, 2005, non-executive directors of the Company have been granted a total of 425,000 options to acquire 425,000 common shares of the Company at prices ranging from \$0.13 to \$0.20 per share. As at November 30, 2004, non-executive directors of the Company have been granted a total of 312,500 options to acquire 312,500 common shares of the Company at prices ranging from \$0.13 to \$0.20 per share.

The following table summarizes information about the stock options outstanding as at August 31, 2005:

Exercise price	Options outstanding	Remaining Contractual life [months]	Options vested
\$0.12	60,000	30	60,000
0.13	1,167,247	46 to 58	848,080
0.15	238,000	22	238,000
0.16	1,442,500	53	—
0.19	232,500	33	232,500
0.20	204,800	17	204,800
0.28	30,000	41	30,000
0.32	100,000	41	70,000
0.33	185,000	10	185,000
0.35	66,000	8	66,000
0.50	150,000	6	150,000
1.30	40,000	1	40,000
	<b>3,916,047</b>		<b>2,124,380</b>

### Employees and Directors

On December 1, 2004, the Company adopted the CICA's recommendations in Section 3870, "Stock-based Compensation and Other Stock-based payments" and has recorded the fair value of all options granted in the consolidated statement of loss. Upon adopting CICA Section 3870, the Company elected to retroactively adjust the deficit without restatement. On December 1, 2004, the Company increased the deficit by \$129,066 and increased contributed surplus by the same amount. Employee stock based compensation expense for the nine months ended August 31, 2005 was \$63,333 (three months ended August 31, 2005 – \$28,771).

The value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model and recorded as an expense ratably over the vesting period of the option. During the nine months ended August 31, 2005, the Company granted 1,790,000 options to acquire 1,790,000 common shares of the Company at prices ranging from \$0.13 to \$0.16 per share (three months ended August 31, 2005 – 207,500 options to acquire 207,500 common shares of the Company at \$0.13 per share). The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

assumptions:

Weighted average risk-free interest rate	3.0% to 3.02%
Dividend yield	0.0%
Weighted average volatility factors of the expected market price of the Company's common shares	59.3% to 59.8%
Weighted average expected life of the options (in years)	2.5 to 3.0

**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 the nine and three months ended August 31, 2005, no such options were granted. During the nine months ended August 31, 2004, the value assigned to 30,000 options granted to non-employees was \$3,600 (three months ended August 31, 2004 – nil). The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model. The assumptions used to value the options are outlined in note 7 to audited financial statements for the year ended November 30, 2004.

**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 August 31, 2005, the legal stated capital of the common shares is \$19,302,449 [November 30, 2004 - \$19,277,666].

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.

**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 periods presented, were calculated using the weighted average number of common shares outstanding during each period as follows:

	Nine months ended	
	August 31, 2005	August 31, 2004
<b>Basic earnings (loss) per share</b>		
Net (loss)	\$ (147,470)	\$ (567,191)
Weighted average number of common shares outstanding	39,465,549	39,191,314
<b>Basic and diluted (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>

<b>Diluted earnings (loss) per share</b>		
Net (loss)	\$ (147,470)	\$ (567,191)
Weighted average number of common shares outstanding	39,465,549	39,191,314
Dilutive effect of stock options and warrants	—	—
Weighted average number of common shares outstanding	39,465,549	39,191,314
<b>Diluted earnings (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>

	Three months ended	
	August 31, 2005	August 31, 2004
<b>Basic earnings (loss) per share</b>		
Net (loss)	\$ (170,455)	\$ 87,711
Weighted average number of common shares outstanding	39,449,723	39,244,179
<b>Basic and diluted (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>

<b>Diluted earnings (loss) per share</b>		
Net income (loss)	\$ (170,455)	\$ 87,711
Weighted average number of common shares outstanding	39,449,723	39,244,179
Dilutive effect of stock options and warrants	—	—
Weighted average number of common shares outstanding	39,449,723	39,244,179
<b>Diluted earnings (loss) per share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

For the three and nine months ended August 31, 2005 and 2004, all warrants and stock options were excluded from the calculation of diluted loss per share because the effect would have been anti-dilutive.

### 8. MAJOR CUSTOMERS

For the three and nine months ended August 31, 2005, no single customer accounted for more than 10% of revenue. For the three months ended August 31, 2004, two customers accounted for 25.2% of revenue. For the nine months ended August 31, 2004, one customer accounted for 10.4% of revenue.

### 9. RELATED PARTY TRANSACTIONS

As at August 31, 2005, annual and meeting fees payable to directors acting in their capacity as directors was \$3,753 [November 30, 2004 - \$13,750]. For the nine months ended August 31, 2005, directors' fee expense was \$37,503 [2004 - \$33,750]. For the three months ended August 31, 2005, directors' fee expense was \$12,501 [2004 - \$11,250].

During the nine months ended August 31, 2004, the remaining employee notes totalling \$31,850 were forgiven (three months ended August 31, 2004 – nil).

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 the nine months ended August 31, 2005 the Company expensed consulting fees totalling nil (2004 - \$97,625). During the three months ended August 31, 2005 the Company expensed consulting fees totalling nil (2004 - \$26,812).

As at August 31, 2005 and November 30, 2004, officers, directors and employees of the Company hold 10.9% of each of the outstanding Series 1 offering and warrants and received their pro-rata share of dividends.

### 10. INFORMATION BY GEOGRAPHIC AREA

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

	<b>Nine months ended August 31, 2005</b>			
	<b>North America and Australia</b>	<b>Europe</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>				
Customers	\$3,872,166	\$ 700,248	\$ —	\$ 4,572,414
Interest income	42,515	382	—	42,897
Intercompany	48,305	—	(48,305)	—
	<b>\$ 3,962,986</b>	<b>\$ 700,630</b>	<b>\$ (48,305)</b>	<b>\$ 4,615,311</b>
Income (loss) before income taxes	<b>\$ (149,995)</b>	<b>\$2,525</b>	<b>\$ —</b>	<b>\$ (147,470)</b>
	<b>Nine months end August 31, 2004</b>			
	<b>North America and Australia</b>	<b>Europe</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>				
Customers	\$ 3,642,496	\$ 737,196	\$ —	\$ 4,379,692
Interest income	31,658	301	—	31,959
Intercompany	49,587	—	(49,587)	—
	<b>\$ 3,723,741</b>	<b>\$ 737,497</b>	<b>\$ (49,587)</b>	<b>\$ 4,411,651</b>
Loss before income taxes	<b>\$ (547,651)</b>	<b>\$ (19,540)</b>	<b>\$ —</b>	<b>\$ (567,191)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005

[in Canadian dollars unless otherwise indicated]

Three months end August 31, 2005				
	North America and Australia	Europe	Eliminations	Consolidated
<b>Revenue</b>				
Customers	\$ 1,216,925	\$ 249,800	\$ —	\$ 1,466,725
Interest income	15,388	—	—	15,388
Intercompany	19,955	—	(19,955)	—
	<b>\$ 1,252,268</b>	<b>\$ 249,800</b>	<b>\$ (19,955)</b>	<b>\$ 1,482,113</b>
Income (loss) before income taxes	<b>\$ (190,640)</b>	<b>\$ 20,185</b>	<b>\$ —</b>	<b>\$ (170,455)</b>

Three months end August 31, 2004				
	North America and Australia	Europe	Eliminations	Consolidated
<b>Revenue</b>				
Customers	\$ 1,376,860	\$ 275,508	\$ —	\$ 1,652,368
Interest income	9,383	275	—	9,658
Intercompany	13,119	—	(13,119)	—
	<b>\$ 1,399,362</b>	<b>\$ 275,783</b>	<b>\$ (13,119)</b>	<b>\$ 1,662,026</b>
Income before income taxes	<b>\$ 85,303</b>	<b>\$ 2,408</b>	<b>\$ —</b>	<b>\$ 87,711</b>

	North America	Europe	Eliminations	Consolidated
<b>Capital assets</b>				
August 31, 2005	<b>\$ 245,718</b>	<b>\$ 36,052</b>	<b>\$ —</b>	<b>\$ 281,770</b>
November 30, 2004	\$ 147,726	\$ 27,424	\$ —	175,150

### 11. 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.

### 12. OTHER INCOME

In May 2000, the Company settled an outstanding proceeding with TRIFOX, Inc. ["TRIFOX"]. The settlement provided for an initial cash payment of US\$250,000 [all of which was received] and ongoing semi-annual payments totalling US\$520,000 of which US\$199,079 [2004 - \$263,785] remains outstanding. These remaining payments are linked to the revenue of TRIFOX and are collateralized by way of a US\$995,394 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.

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

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2005

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with the settlement agreement.

### **13. SPECIAL CHARGES**

On August 31, 2004, the Company restructured its operations and terminated nine employees to re-align its on-going operating costs. As at August 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. As at August 31, 2005, all amounts had been paid.

### **14. 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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