



Discover. Predict. Act.™

**2008** Annual Report

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Dear Shareholders,

Enclosed is our Annual Report for 2008.

In our 2007 Annual Report, released about this time last year, we noted that 2008 was shaping up to be a challenging year. We indicated that the business climate would likely remain difficult into 2009.

As events of the following quarters demonstrated, this assessment proved to be an understatement.

Over the past several months we have all witnessed profound structural shocks to the global economy, resulting in a significant, rapid, and widespread deterioration in business conditions across all regions and sectors.

How does this relate to Angoss?

The downturn has been particularly severe in the financial services industry, our primary customer market, and in the US and UK, two of our primary geographic markets. New technology expenditures in marketing, sales and risk management areas, our primary functional markets, have also all been affected.

Against this backdrop, in 2008 Angoss delivered higher earned revenues, 10% growth in billings, and significantly higher net income. We're pleased with our accomplishments in that context.

In addition to delivering growth and improved profitability in a challenging business climate, we executed well against key objectives outlined in early 2008 for the year ahead.

Goal	Execution
Business Expansion	Expanded breadth and capabilities of senior management team Established US field sales team, while evaluating equity joint venture opportunities for ASEAN markets.
New Solutions	Extended analytics platform, infrastructure and hosting capabilities to support the delivery of "on demand" solutions for marketing, sales and risk on a subscription basis.  Introduced KnowledgeSEEKER® for Salesforce CRM as a companion offering to our FundGUARD™ and ClaimGUARD™ solutions for the mutual fund and insurance industries.  Formed Sapien Data Information Services business unit and acquired IntelliMaxx™, a complementary on-demand marketing solutions business to accelerate the goals outlined under our Sapien business plan.
Industry Positioning	Moved up the Gartner Magic Quadrant™ as a leading "challenger" in customer data mining to traditional statistical tools vendors.

We are pleased to see Angoss clients continuing to expand their use of Angoss analytics systems in the current business climate, and to be adding new clients to our blue chip client base.

Our performance in 2008 underlines the growing importance of analytics for improving decision-making across all industries in times of economic uncertainty.

Our 2008 achievements also validate our differentiation in the marketplace. Angoss offers significantly richer analytical capabilities than traditional BI and statistical tools to improve decision making, enabling **faster time to better decisions** while offering **significantly reduced complexity and cost**.

These capabilities are increasingly vital to organizations that appreciate the need to unlock greater value from their data – to accelerate revenue growth, improve client relationships, and reduce risk, cost and inefficiency in their businesses - in a more challenging and competitive business climate.

The Angoss vision of bringing advanced analytics capabilities to mainstream business audiences - business solutions that deliver business value for business users – resonates well with our clients.

Our continuous innovation around reducing the complexity and increasing the availability and affordability of advanced analytics - best illustrated in 2008 by our successful launch of KnowledgeSEEKER for Salesforce CRM at the Dreamforce global user conference for Salesforce customers - demonstrates how we are making this vision and our commitment to innovation real for our customers.

Our operating goals for 2009 are, we feel, appropriate for the business environment we anticipate continuing throughout the year. Sales cycles for technology solutions across the entire tech sector will be longer, harder, and subject to significant deal related and customer risks..

In this context, we will seek growth opportunities where we can, but our bias will be towards maintaining and improving operating profitability for much of 2009 in a business environment where many customers may be unable or unwilling to make significant investments in new technology.

More strategically, we will be working to successfully integrate the IntelliMaxx™ offering with the Angoss product suite, as well as evaluating other opportunities to expand our business - geographically, and in adjacent technology areas, if suitable opportunities present themselves.

We will also be aligning our analytics offerings and value propositions with the timely business needs of our clients in the current environment, including demonstrating how Angoss can be used by:

- Mortgage Lenders – to optimize their foreclosure and sales processes;
- Retail Lenders – to expand their consumer deposit base to support future business growth;
- Investment Banks – to resuscitate securitization markets with higher quality, more transparent asset backed portfolios;
- Mutual Funds and Asset Managers – to rebuild their assets under management; and,
- Telecom and Technology Vendors, to achieve superior sales performance, while maintaining or reducing their marketing and sales investments.

Angoss offers an industry unique combination of technology and people capabilities in an exciting, widening market for enhanced analytics capabilities.

Despite the near term outlook we have an exciting agenda for continued growth, and look forward to the year ahead.

On behalf of all of our shareholders I would like to thank the employees of Angoss for their commitment and dedication this past year. I would also like to welcome a very dedicated Intellimaxx team to the company, and thank them for their work in achieving a seamless transition for customers following our acquisition.

Regards,

Eric Apps

Dear Shareholders,

I am pleased to have been part of the formation and strategy behind Sapien Information Services, launched as a separate division of Angoss Software in 2008 to provide a new, better integrated, intelligent, and more efficient suite of marketing analytics solutions to the market.

As the only integrated marketing organization of its kind in Canada, Sapien will offer a comprehensive, on-demand, fully integrated suite of capabilities to marketers based on three key pillars:

- Proprietary Data Asset - a unique portfolio of data points and insights on Canadian consumers comprised of public, partner and proprietary data sources.
- Advanced Marketing Analytics - a comprehensive suite of automated, robust, easy to use analytical solutions that help marketers more deeply understand consumer behaviors, trends and desires
- Campaign Management - marketing automation tools for online, mobile and traditional direct marketing activities that enable both the creation of more effective analytics driven marketing campaigns but the tracking and measurement of their effectiveness.

I believe that this combination of capabilities will provide new and existing Sapien clients with greater marketing ROI and a more effective marketing reach. With shrinking marketing budgets and increasing loyalty and lead generation demands this couldn't be more resonant.

With the acquisition of the IntelliMaxx platform in December 2008, Sapien's campaign management capabilities were realized and with the subsequent integration of Angoss' market proven sales and marketing analytics we are already making strides. As part of this acquisition I am pleased to be able to continue offering IntelliMaxx campaign services to many flagship Canadian retailers while expanding Sapien's capabilities in the areas above through 2009 to further increase its value to clients.

Regards,

Tony Canapini

### **Banking and Financial Services**

Despite the backdrop of a slowing market in this sector through 2008, Angoss expanded its base of KnowledgeSTUDIO and KnowledgeSEEKER software clients and users, reinforcing our position as a compelling alternative to traditional statistical tools.

American Express, ATB Financial, Bank of America, Barclaycard US, Capital Card Services, CitiGroup, Discover Financial, Dollar Financial, GE Commercial Finance, HSBC, JP Morgan Chase, MBNA Europe Bank Ltd., Merrill Lynch, PayPal, Sovereign Bank, Wachovia, Washington Mutual, and Wells Fargo, among many others, expanded their use of Angoss software this year.

In addition, Angoss continued to develop and expand its on-demand software-as-a-service solutions for banking and financial services clients seeking an alternative to in-house data mining and deployment. Angoss Collection Analytics was introduced late in the year, offering users faster and higher volume collection recoveries, lower operational costs and improvements to client service.

### **Life, P&C and Benefits Insurance**

Angoss ClaimGUARD, a predictive analytics solution for fraud detection and prevention is scoring tens of millions of medical, dental and drug claims to detect fraud and abuse, while significantly improving insight into claims costs.

In addition, USAA, AIA Australia, Guardian Life Insurance, United Health Group, and Churchill and Direct Line Insurance Co., among others, all expanded their use of Angoss KnowledgeSEEKER or KnowledgeSTUDIO analytics software.

### **Mutual Fund and Wealth Management**

Angoss FundGUARD, an on-demand predictive analytics and reporting solution for fund sales optimization supported several mutual fund and wealth management organizations in 2008. Despite one of the worst years for mutual fund redemptions on record, FundGUARD generated over \$300M in gross ROI for our clients this year.

### **Information and Communications Technology**

Angoss continued to grow its presence with ICT organizations in 2008. Across its data mining software on-demand solutions, Angoss grew deployments at Novell, eBay, Nortel Network, Nokia, O2 UK Ltd., Rogers Communications and the Yellow Pages Group, among others in this sector.

### Banking and Financial Services

Expand deployments with existing clients while continuing to design, market and deliver integrated on-demand analytics solutions targeted to smaller or regional financial institutions.

#### Key Objectives:

- Maintain current high levels of client retention with dedicated account management programs
- Expand client adoption in the Americas and UK, seek regional relationships to manage growth in Southeast Asian markets
- Continue to promote on-demand analytics solutions to address marketing, sales and credit risk requirements of clients in this sector.

### Life, P&C and Benefits Insurance

Continue to expand deployments of Angoss solutions to support the marketing, sales and risk management objectives of Angoss insurance customers.

#### Key Objectives:

- Secure charter clients for Angoss sales analytics solutions for insurers, including KnowledgeSEEKER for Salesforce.com
- Expand ClaimGUARD™ deployments for claims lifecycle analytics.

### Mutual Fund and Wealth Management

Position FundGUARD™ is the solution of choice for fund managers looking to use data driven analytics to rebuild assets under management as the economic cycle improves.

#### Key Objectives:

- Expand FundGUARD penetration working with fund wholesalers and wealth management firms in Canada and the US
- Secure charter clients running Salesforce.com for fully integrated solutions combining sales analytics and FundGUARD capabilities.

### Information and Communications Technology

Continue to expand deployments of sales and risk analytics solutions within this segment.

#### Key Objectives:

- Secure charter clients for KnowledgeSEEKER for Salesforce CRM, among the large number of telecom and technology industry organizations that have selected this CRM platform.
- Expand delivery of "on demand" credit lifecycle and collections analytics solutions capabilities to telecom industry risk management organizations.

### Sapient

Successfully retain Intellimaxx clients, while extending Intellimaxx platform to support more robust integrated data management, analytics and campaign execution capabilities.

#### Key Objectives:

- Client retention and expansion
- Achieve Intellimaxx data asset and platform development milestones
- Introduce integrated capabilities of Angoss and Sapient to selected charter customers

*This Management Discussion and Analysis ("MD&A") dated March 18, 2009 should be read in conjunction with our audited consolidated financial statements for the fiscal year ended November 30, 2008 and the notes thereto. The financial data in the MD&A has been prepared by management in accordance with Canadian generally accepted accounting principles. Additional information relating to Angoss Software Corporation ("Angoss" or the "Company") can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Unless otherwise indicated, all dollar amounts included in this MD&A are stated in Canadian dollars.*

## Forward Looking Statements

Some of the statements contained in this discussion 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.

## Overview of Business

Angoss Software provides businesses with advanced analytics systems that help marketing, sales and risk professionals to **discover** the key drivers of customer behaviors, **predict** future trends and events, and **act** with confidence by enabling data driven decisions that accelerate revenue growth, reduce marketing and sales costs, and better manage customer risk.

Angoss competitive differentiators include broad user acceptance, commitment to open industry standards, rich functionality, rapid deployment, exceptional ease-of-use and affordability.

Angoss systems are offered under both technology licensing, hosted or "on demand" solution delivery models.

Angoss combines powerful market-proven predictive analytics software offerings – KnowledgeSEEKER®, KnowledgeSTUDIO® and StrategyBUILDER™ - with a highly scalable and reliable deployment platform - KnowledgeSERVER® - focused industry services expertise in the deployment, integration and use of predictive analytics in enterprise environments.

The company's suite of predictive analytics solutions combine Angoss software with industry verticalized solutions, best practices and implementation services that help clients achieve business value benefits from predictive analytics faster and at lower cost. Examples of Angoss solutions include FundGUARD™, a mutual fund sales channel optimization system, ClaimGUARD™, a benefits insurance claims fraud detection system, and KnowledgeSEEKER® for Salesforce.com, an on demand analytics plug-in for the popular Salesforce.com CRM system.

Angoss has traditionally focused primarily on the financial services and information and communications technology industry verticals. In December, 2008, the Company acquired the property and assets of dthree, a marketing solutions company focused on the retailing industry under the Intellimaxx™ offering. The Company plans to extend the Intellimaxx™ offering with integrated data management, analytics and marketing execution capabilities to meet the demands of existing and new customers in finance, ICT and retailing for more robust, integrated e-mail, web and mobile marketing capabilities.

The ability of Angoss to offer both technology transfer and on-demand solution delivery options has helped Angoss customers achieve rapid, measurable return on investment through accelerated customer acquisition rates, higher revenue growth, improved insight into customer risk, and faster time to data driven decisions. Implementations are geared to industry and client specific needs and capabilities using the Angoss Predictive Analytics Maturity Model™ - a proven implementation methodology which ensures rapid return on investment, effective knowledge transfer, and rapid solution availability using both technology licensing and subscription service delivery models.

## **Fiscal 2008 Business Highlights**

### **Credit Lifecycle Analytics and Portfolio Management Solutions for Consumer and Small Business Lending**

Despite a challenging business climate for financial services organizations globally, Angoss continued to expand deployments of KnowledgeSEEKER, KnowledgeSTUDIO and StrategyBUILDER with leading financial services organizations during 2008. Angoss systems help financial services organizations retain and grow customer relationships while better understanding and mitigating credit, fraud and other business risks. With the introduction of additional high performance analytics, scorecard creation and strategy design software during 2008, the Angoss analytics suite is well positioned as a feature-rich alternative to the traditional statistical tools and methodologies clients have struggled with to address the analytics challenges associated with recent credit risk lifecycle areas. Continued expansion of user groups with Citigroup, Bank of America, HSBC, JP Morgan Chase, Wachovia, Washington Mutual, Wells Fargo, Barclays, and others highlighted a year of growth in the context of challenging market conditions which are expected to continue throughout 2009. During Q4, 2008 the Company also released an “on demand” Collections offering for financial services as well as ICT clients struggling to better understand, manage and optimize the performance of their receivables portfolios for both pre and post delinquent accounts. These capabilities will be extended in 2009 to address foreclosure and sale optimization challenges as well as to help rebuild and expand traditional deposit based consumer and small business banking relationships.

### **Angoss FundGUARD System Drives Significant Growth In Assets Under Management**

Angoss FundGUARD helps mutual fund and wealth management companies use predictive analytics to drive territory coverage planning and growth in assets under management, while reducing redemption risk. The Angoss FundGUARD solution continued to extend its market leadership position in the North American mutual fund industry, with continued addition during 2008 of subscriptions at current clients, and continued expansion of the Company’s opportunity funnel, focused on North American and European mutual fund industry prospects. FundGUARD has generated over \$300M in ROI for its clients in 2008, providing significant business insight and value to mutual fund managers seeking to help their sales organizations achieve improved sales performance and results. During 2009 the Company will be expanding its on-demand FundGUARD analytics portal for existing clients and new subscribers, including offering integration for Salesforce.com and other popular on-demand and installed CRM applications as well as with popular fund industry advisor databases and order management systems. 2008 has been a challenging year for the fund industry creating tight conditions for investments in new technology solutions to support marketing and sales effectiveness. We expect the business environment to gradually improve during 2009 and as it does fund managers will begin focusing again on rebuilding assets under management.

### **Angoss ClaimGUARD Helps Benefits Insurers Grow Premiums, Reduce Costs and Flag Abuse**

During 2008 Angoss successfully expanded deployment of the Angoss ClaimGUARD system enabling improved fraud and abuse detection and prevention and better insight into the drivers of claims costs at one of North America’s largest benefits insurance carriers. ClaimGUARD helps insurers grow premium revenues by better understanding key drivers of claims costs and outcomes, reducing loss ratios through more efficient analysis and assessment of claims, and reducing claims-fraud risk. The Angoss solution, implemented in multiple phases, and available under both licensing and software-as-a-service delivery models, enables identification of high risk claim, claimant and care provider targets in support of the carrier’s claims fraud and abuse detection requirements. ClaimGUARD has already resulted in significant, documented, actionable business value benefits for the client, within weeks of the launch of the initial solution delivery phase. After scoring more than 62 million claims in 2008 Angoss expects to continue to expand its opportunity funnel for ClaimGUARD solution implementations with Canadian benefits and P&C insurers during the 2009 fiscal year. No initiatives with ClaimGUARD™ are planned for the US or UK markets for 2009.

### **KnowledgeSEEKER for Salesforce.com**

During 2008 Angoss conceived, developed and launched its KnowledgeSEEKER for Salesforce.com solution – the world’s first on demand data mining system for any CRM platform. Offered as a subscription service KnowledgeSEEKER for Salesforce will be offered primarily to financial services and ICT customers seeking to optimize and improve the productivity, effectiveness, and closing rates of their sales organizations. Angoss build a solid pipeline of Salesforce prospects during 2008 and we expect this trend to continue in 2009 as organizations that have standardized on Salesforce.com for their CRM needs seek to further improve sales performance by leveraging the valuable marketing, sales and customer data captured in their Salesforce systems.

## Growth Strategy

The Angoss growth strategy is based on continuing to expand deployments of its analytics systems in the financial services and ICT industries to address the marketing, sales and risk analytics needs of customers, while introducing advanced analytics solutions that extend these capabilities and address these needs within these target industries. Expansion of software sales and on demand subscriptions creates recurring annual revenue streams and cash flows that are used to fund business growth, including the introduction of new offerings.

All Angoss solutions are delivered on a common technology platform incorporating Angoss, Microsoft and Internet technologies that supports both licensing and on demand delivery options, and that can be easily integrated with external data assets and aggregation systems for analytics inputs, and with CRM and other operational systems for analytics deployment.

Angoss analytics solutions like FundGUARD, ClaimGUARD and KnowledgeSEEKER for Salesforce.com are selected, promoted, marketed and sold based on their repeatability, scalability and ability to deliver demonstrable, measurable value to business organizations that do not have ready or cost-effective access to advanced analytics, business intelligence or similar capabilities.

Historically Angoss has serviced North America from its head offices in Toronto, while servicing European customers from its European headquarters in Guildford, UK. In 2008, the Company expanded its operations into the U.S. market and recruited U.S.-based sales resources to address targeted U.S. business opportunities. Initial expectations for these investments have been impacted by the significant deterioration of the US economy in 2008, as well as the adverse swing in foreign exchange which has increased the costs of US based resources by approximately 20%. Despite these developments, the Company has made significant progress in developing and extending its US presence and these initial investments should provide the baseline for further revenue growth in the US during 2009.

In December 2008, the Company announced the purchase of the assets of dThree, Inc. and the Intellimaxx™ marketing and campaign management platform. Integration of the Intellimaxx™ business is proceeding as scheduled. Angoss and dthree personnel are focused on enhancing existing client relationships, extending the capabilities of the Intellimaxx platform, and enabling significant improvements in marketing effectiveness and cost reduction through integration of Intellimaxx with Angoss's market-proven analytics engine. Acquisition and related information are more fully detailed below. The Company believes that its ability to successfully complete, implement and improve the management of acquired businesses will be important to future growth plans.

As a result of these initiatives, the Company may experience fluctuations in quarterly operating profitability until such time as the company realizes the benefits from such investments.

In addition to traditional GAAP financial statements, management monitors numerous key performance indicators (KPI's) to assist in running the business. Some of these include sales pipeline and new opportunity value to quota metrics, lead generation and campaign response metrics, license renewal and on demand subscription rates, average deal sizes, professional services utilization rates and costs by department. These factors revolve around building an infrastructure that is innovative, scalable, agile and which can deliver recurring licensing, renewal and subscription revenues, positive cash flow and profitability.

## Selected Annual Information

The table below sets out selected annual financial information for the Company. A more detailed discussion can be found under "Results of Operations" below.

	2008	2007	2006
Stated in Canadian dollars			
Revenue	<b>\$ 7,541,523</b>	\$ 7,361,476	\$ 6,824,114
Sales and Marketing, General and Administration and Research and Development expenses	<b>(7,176,538)</b>	(6,503,012)	(6,143,622)
Income before the following	<b>364,985</b>	858,464	680,492
Foreign exchange losses, Financing expenses, Amortization, Stock option expense and Other income	<b>(30,730)</b>	(787,118)	(369,613)
Net income (loss) for the year	<b>\$ 334,255</b>	\$ 71,346	\$ 310,879
Basic and diluted profit (loss) per share	<b>\$0.04</b>	\$ 0.01	\$ 0.01
Total assets	<b>\$4,980,043</b>	\$ 5,690,922	\$ 4,812,545
Total long term financial liabilities	<b>\$ 699,065</b>	\$ 492,762	\$557,522
Cash dividends declared per Preferred share	<b>\$ 0.07</b>	\$ 0.07	\$ 0.07

## Results of Operations

### *Revenue*

Angoss revenues are derived from the sale of predictive analytics solutions. Such solutions include analytic software sales consisting of the sale of the initial software license to use the Company's software products and related license and software license renewals ("licenses"), and analytics solutions that involve the sale of licenses or on demand subscriptions enabling access to Angoss systems together with associated implementation services ("professional services"). Interest income is also generated, primarily in North America, on surplus cash.

The following are the primary factors currently impacting revenue:

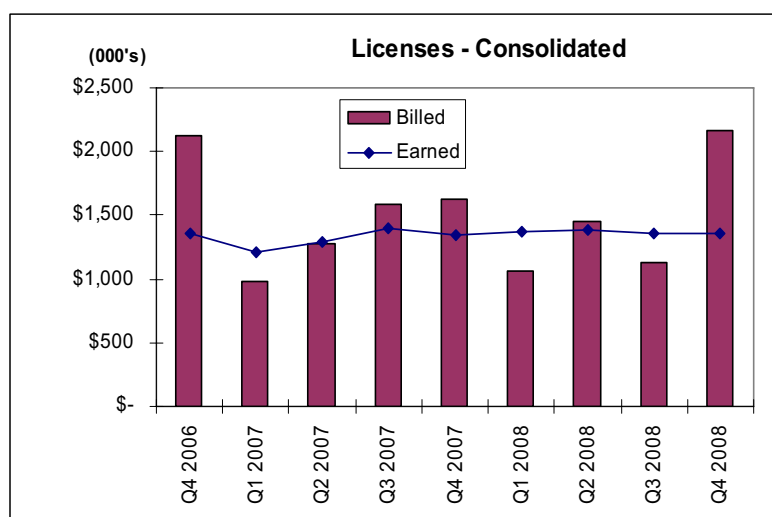
- Billed product and renewal revenues are amortized over the license term (generally 12 months) in accordance with EIC-142. As a result, significant growth in billed product and renewal revenues in any one period is recognized ratably over the license term (generally 12 months) with a corresponding effect on deferred revenues.
- The Company increasingly markets and sells predictive analytics solutions combining both software and associated expert services, with deployment occurring in multiple phases over extended implementation timelines. The Company expects that since these solutions are delivered on an "on demand" basis, involve integration with deployment environments and operational systems, are hosted in a shared services environment, and require less ongoing professional services effort as they are operationalized, many of these solutions will become recurring, higher margin subscription offerings, with positive impacts on recurring revenue and margin. The net effect of this change in the Company's business model is to increase the relative contribution to revenues of expert services in solution sales, resulting in growth in professional services revenues, and to provide for follow-on licensing and deployments of predictive analytics software systems with configuration and other implementation elements beyond direct revenue opportunities. The sales cycle associated with this type of offering is longer and the signing of contracts, related billings and earnings may cause revenue to fluctuate until such time as the Company builds its opportunity pipeline and backlog of signed contracts for future period deliveries.

The Company currently operates primarily in two geographic markets - North America and Europe. During 2008, 84.1% of earned revenue was generated from customers in North America (2007 - 87.3%) and 15.9% in Europe (2007 - 12.7%). The increase in the relative proportion of UK earned revenues in 2008 reflects the growth in UK

earned services and renewals, despite a relative year over year decline in the exchange rate of British Pounds for Canadian Dollars. Earned revenues from markets outside these geographic regions currently are not material to the Company's operations and are included in North American revenues.

Earned Revenue	Twelve months ended November 30		
	2008	2007	% change
License revenue	<b>\$ 5,468,256</b>	\$ 5,382,407	1.6%
Professional services	<b>2,034,050</b>	1,886,677	7.8
Angoss direct revenue	<b>7,502,306</b>	7,269,084	3.2
Interest	<b>39,217</b>	92,392	(57.6)
Total Revenue	<b>\$ 7,541,523</b>	\$ 7,361,476	2.4%

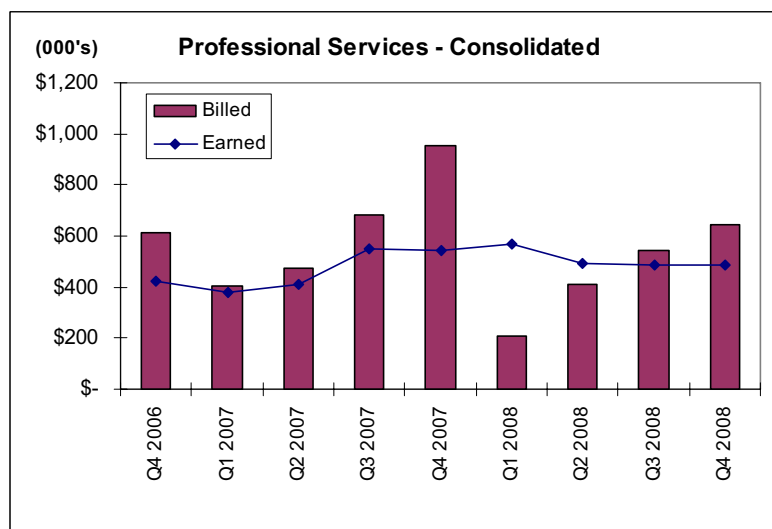
## License Revenue



The amount of earned license revenue in any quarter is a direct function of license revenue billed in the current and three preceding quarters as such billings are recognized over the one year license term, growth rates are therefore a blended mix of billings in prior periods.

During the twelve months ended November 30, 2008, a 2.6% decline in earned North America license revenue was offset by a 23.6% increase in earned European license revenue. As a result, earned license revenue increased 1.6% over the same period in 2008.

## Professional Services



Earned professional service revenues increased 7.8% during the twelve months ended November 30, 2008 (2007 – 14.8%). A 4.1% increase (2007 – 14.0% increase) in North America was augmented by growth in the UK. Earned professional services in the UK account for 6.8% (2007 - 3.5%) of earned services revenues.

The funnel of new contracts with unbilled / unearned revenue declined at the end of 2008 reflecting the longer sales cycles associated with solution offerings.

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

Earned professional services revenue in any one quarter is a direct function of contracts signed in current and prior quarters, contract defined billing cycles and delivery timetables. In general, these solutions have a higher component of expert services, particularly during initial implementation phases and as such the selling cycle is longer. Growth rates will fluctuate while the Company builds its opportunity pipeline and backlog of signed contracts for future period deliveries.

Billed Revenue	Twelve months ended November 30		
	2008	2007	% change
Initial licenses	\$ 3,045,269	\$ 3,213,243	(5.2)%
Renewal licenses	2,767,087	2,254,991	22.7%
License Revenue	5,812,356	5,468,234	6.3%
Professional Services	1,804,007	2,516,713	(28.3)%
<b>Total billed revenue</b>	<b>\$ 7,616,363</b>	<b>\$ 7,984,947</b>	<b>(4.6)%</b>

The following discussion and analysis is presented in the context of local currency billings in both North America and Europe. Internally, the company monitors growth rates in terms of local currency and budgeted exchange rates. In the following discussion, foreign exchange accounts for the difference between growth %'s above (based on Canadian billings) and those growth rates in local currencies. The effect of foreign currency is outlined in more detail below.

On a consolidated basis, total billed revenue in local currencies decreased by 4.3% with a 0.5% decline in initial license revenues. In North America, initial software license billings increased 3.0% over 2007. Sales to the financial services sector grew in 2008 while sales to other business segments were consistent with prior years. In Europe, initial software license billings declined 22.2%. The decrease in Europe resulted from longer sales cycles and deteriorating market conditions.

Renewal license billings are cyclical and generally follow a billing pattern that parallels the prior year's initial and renewal software license billings. In 2008, North American renewal billings grew 19.1% with US billing renewals growing 7.2% and renewals in Canada up 91.0% as a result of licenses being reactivated by former client installations. In Europe, renewal billings grew 52.3% reflecting the continuing positive impact of the license renewal changes implemented in 2006. Renewal billings are expected to continue to grow in parallel with the renewal of initial licenses and the continued renewal of existing licenses.

During the twelve months ended November 30, 2008, the 29.7% decline in professional service billings reflects the longer sales cycle associated with new solution offerings introduced in 2008. Solution billings are defined by the contract and earned over the implementation timelines. Such billings are expected to continue to grow as a result of continued focus on solution based sales. During the twelve months ended November 30, 2008, North American professional services billings declined 31.9% over 2007 and represented 95.9% (2007 – 97.9%) of professional services billings. In the UK, professional services billings increased 166.3% over 2007.

The Company's operations have increasingly focused on a migration from a commodity tools-based sales model to an account management based sales model pursuing higher average sales transaction value deals in financial services and telecom industry verticals resulting in a larger funnel of business opportunities with longer sales cycles. This approach makes quarterly initial software license billings subject to a higher degree of fluctuation, offset by the opportunity to generate higher revenues over time from these client relationships. Such larger transaction proposals also run the higher risk of not closing at all, particularly in soft business environments for new technology spending.

### *Operating Costs and Expenses*

Operating costs and expenses ("operating expenses") consist of sales and marketing ("S&M"), general and administration ("G&A"), and research and development ("R&D") expenses. Such operating expenses increased 11.0% in 2008 over 2007 levels.

	Twelve months ended November 30, 2008			Twelve months ended November 30, 2007			Year over year	
	North America	UK	Total	North America	UK	Total	\$	%
S&M	\$ 3,988,900	\$ 604,552	\$ 4,593,452	\$ 3,333,968	\$ 742,222	\$ 4,076,190	\$ 517,262	12.7%
G&A	1,518,780	152,088	1,670,868	1,434,989	168,261	1,603,250	67,618	4.2%
R&D	952,218	-	952,218	823,572	-	823,572	128,646	15.6%
	<b>\$ 6,459,898</b>	<b>\$ 756,640</b>	<b>\$7,216,538</b>	<b>\$ 5,592,529</b>	<b>\$ 910,483</b>	<b>\$ 6,503,012</b>	<b>\$ 713,526</b>	<b>11.0%</b>
% of total	89.5%	10.5%	100.0%	86.0%	14.0%	100.0%		

#### Analysis of Operating Costs and Expenses

	Twelve months ended November 30, 2008			Twelve months ended November 30, 2007			Year over year	
	North America	UK	Total	North America	UK	Total	\$	%
<b>Compensation</b>								
S&M	\$ 3,135,762	\$ 563,428	\$ 3,699,190	\$ 2,538,986	\$ 683,264	\$ 3,222,250	\$ 476,940	14.8%
G&A	550,129	-	550,129	515,584	-	515,584	34,545	6.7%
R&D	776,693	-	776,693	726,798	-	726,798	49,895	6.9%
	<b>4,462,584</b>	<b>563,428</b>	<b>5,026,012</b>	<b>3,781,368</b>	<b>683,264</b>	<b>4,464,632</b>	<b>561,380</b>	<b>12.6%</b>
% of total	69.1%	74.5%	69.6%	67.6%	75.0%	68.7%		
<b>Other</b>								
S&M	853,138	41,124	894,262	794,982	58,958	853,940	40,322	4.7%
G&A	968,651	152,088	1,120,739	919,405	168,261	1,087,666	33,073	3.0%
R&D	175,525	-	175,525	96,774	-	96,774	78,751	81.4%
	<b>1,997,314</b>	<b>193,212</b>	<b>2,190,526</b>	<b>1,811,161</b>	<b>227,219</b>	<b>2,038,380</b>	<b>152,146</b>	<b>7.5%</b>
% of total	30.9%	25.5%	30.4%	32.4%	25.0%	31.3%		
<b>Total</b>	<b>\$ 6,459,898</b>	<b>\$ 756,640</b>	<b>\$ 7,216,538</b>	<b>\$ 5,592,529</b>	<b>\$ 910,483</b>	<b>\$ 6,503,012</b>	<b>\$ 713,526</b>	<b>11.0%</b>

#### Compensation

In 2008, compensation accounted for 69.6% (2007 – 68.7%) of operating expenses. Overall compensation costs increased 12.6% in 2008 driven by costs associated with expansion of our sales team into the US northeast, partially offset by lower UK costs driven by the decline in the UK British pound.

In North America, the increased S&M compensation costs are primarily related to the initial establishing of a US base of sales operations and associated hires and the decline in value of the Canadian Dollar to the US Dollar during the year. Such cost were 16.0% of 2008 S&M compensation (2007 – nil). The balance of the 2008 increase in North American S&M compensation (approximately 4%) relates to changes in staff compensation mix and increased benefit costs. In 2008, the increase in G&A and R&D compensation is primarily related increases in benefits and cost of living adjustments.

In 2009 S&M compensation expenses are expected to increase as a direct result of the decline in the Canadian dollar and the impact on US operating costs. Offsetting this increase will be shifts in compensation structures towards lower base with same variable payout structures. While the Company anticipates continued expansion into the US, the lower than expected Canadian dollar may delay hiring until the later part of 2009. G&A and R&D compensation expenses are expected to remain unchanged in 2009.

In Europe, compensation costs remained relatively unchanged with the decrease being primarily driven by a decrease in the exchange rate with a constant employee base. All staff in Europe is dedicated to S&M activities - G&A activities are outsourced. This is not expected to change in 2009.

Consistent with its past practice in challenging business environments, the Company is evaluating options available to address the current economic environment and expects to reduce costs as and when appropriate to ensure alignment of costs with forecasted revenues. Updates will be provided in quarterly reports throughout 2009.

#### Other expenses

##### S&M

Other S&M expenses are comprised of three major elements - marketing/demand generation activities (2008 – 36%; 2007 – 40%), sales support programs (2008 – 43%; 2007 – 31%) and third party consulting fees (2008 – 21%; 2007 – 29%).

Marketing/demand generation programs consist primarily of tradeshow activities, internet based lead generation (including advertising) and research. In 2008 tradeshow activities increased as the Company focused on attending industry specific tradeshows in which our solutions were show cased. Marketing efforts also included internet based lead generation activities including webinars and email campaigns. In 2009, the Company intends to continue its focus on industry specific tradeshows as well as expanding its lead generation programs.

Sales support programs consist of travel to customer sites for requirements gathering and proposal presentations, staff training, and CRM expenses. In 2008, travel increased but was more selective based on lead qualification. CRM training was limited to new staff and the number of CRM and related support licenses increased. These trends will continue in 2009. Third party consulting includes amounts paid to an independent sales consultant and recruiting firms. The decrease in 2008 primarily relates to lesser amounts paid to independent consultants as sales efforts were handled by employees. This trend will continue in 2009.

### G&A

Occupancy costs, professional fees and communication costs accounted for 72.7% of other G&A expenses (2007 – 79.3%). Both the mix and amount of such expenses were consistent with the prior year after taking into account the contracted increases in rent (in both North America and Europe), increased recruiting fees as well as other inflationary increases. The balance of other G&A expenses are ordinary course business expenses.

### R&D

Other development costs include legal fees associated with patent applications, training costs, supplies, subscriptions, software and other costs associated with R&D. The amount fluctuates from year to year depending upon patent activities, the development cycle and changes in personnel. In 2008, Ontario Incentive Tax Credits (“OITC”) partially offset other R&D expenses by \$40,000 (2007 - \$50,000). As at November 30, 2008, other assets include \$140,000 (2007 - \$239,000) on account of OITC’s for the period 2005 through 2008 and represents approximately 78% (2007 - 90%) of the amount management otherwise estimates to be collected on account of 2005 through 2008. Any additional amounts recovered will be recorded on receipt.

On January 27, 2009, Angoss Software Corporation was granted a US patent, entitled: "METHOD AND SYSTEM FOR THE VISUAL PRESENTATION OF DATA MINING MODELS". The invention relates to the field of data mining systems, and more specifically to a system for the visual presentation of the outcomes of applying data mining methods or predictive analytics to data. Other patents continue to be pursued with respect to the Company’s data mining activities.

### *Amortization / Interest Accretion*

Amortization in 2008 comprised amortization of capital assets (2008 - \$ 366,399; 2007 - \$330,695) and the amortization of financing fees and interest accretion (2008 – \$ 27,153; 2007 – \$60,953) associated with the issue of the preferred shares in 2003. Amortization of capital assets increased in 2008 as a result of the increased investment in such assets in 2008 and 2007.

### *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 and ongoing semi-annual payments in aggregate totalling US\$520,000. As at November 20, 2008, all amounts due from TRIFOX have been received (November 30, 2007 - \$25,297 remained outstanding). Amounts received during the year were recorded net of collection expenses (21.37% of amounts received).

### *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 income, 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 natural hedges 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 consolidated 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, 2008 and 2007 the Company had no outstanding foreign exchange forward contracts.

As at November 30, 2008, 81.4% (November 30, 2007 – 88.2%) of cash and cash equivalents and 73.2% (November 30, 2007 – 65.3%) of accounts receivable are denominated in foreign currencies. As at November 30, 2008 – 14.6% (November 30, 2007 – 19.3%) of accounts payable and accrued liabilities are denominated in foreign currencies.

As at November 30, 2008, the \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.2372 and \$1.8986, respectively (2007 - \$1.0008 and \$2.0582, respectively). For the twelve months ended November 30, 2008, the weighted average \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.0621 and \$1.9780, respectively (2007 - \$1.0678 and \$2.1518, respectively). Assuming that all other variables remain constant, an increase of 10% (with opposite impacts on a decrease of similar proportion) in the Canadian dollar against both the US and UK currencies would have the following impact on the ending balances of certain balance sheet items at November 30, 2008:

Cash and cash equivalents	\$ (115,992)
Accounts payable and accrued liabilities	16,509
Net foreign exchange loss	\$ (99,483)

The impact on the net income is equivalent to the net foreign exchange loss presented in the table above. There is no impact on other comprehensive income.

## Summary of Quarterly Results

Unaudited	<u>4th Quarter</u>		<u>3rd Quarter</u>		<u>2nd Quarter</u>		<u>1st Quarter</u>	
	2008	2007	2008	2007	2008	2007	2008	2007
(000's)								
Revenues	<b>\$1,855</b>	\$1,911	<b>\$1,845</b>	\$1,965	<b>\$1,889</b>	\$1,727	<b>\$1,953</b>	\$1,758
Sales and Marketing, General and Administration and Research and Development expenses	<b>(1,832)</b>	(1,696)	<b>(1,855)</b>	(1,600)	<b>(1,829)</b>	(1,639)	<b>(1,660)</b>	(1,568)
Income before the following	<b>23</b>	215	<b>(10)</b>	365	<b>60</b>	88	<b>293</b>	190
Foreign exchange gains (losses), Financing expenses, Amortization, Stock option expense and Other income	<b>178</b>	(228)	<b>22</b>	(203)	<b>(95)</b>	(319)	<b>(137)</b>	(37)
Net income (loss)	<b>\$201</b>	\$ (13)	<b>12</b>	\$ 162	<b>\$ (35)</b>	\$ (231)	<b>\$156</b>	\$ 153
Basic and diluted earnings (loss) per share	<b>\$0.02</b>	\$(0.00)	<b>\$0.00</b>	\$0.00	<b>\$(0.00)</b>	\$(0.01)	<b>2008</b>	\$0.00

Earned revenue in any quarter is a function of both previously deferred revenue plus the earned portion of direct billings in the current fiscal quarter. Billed revenue in any quarter is dependent on orders received and licenses renewed in that quarter. The billing and recognition of solution revenue is dependent upon the Company's ability to sell and deliver such solutions. The timing and amount of such revenue is affected by a number of factors that can 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 2008, the Company opened an office in the US, expanded its sales team into the US North East and increased the amount spent on marketing and demand generation. During 2009, the Company intends to further increase demand generation activities and marketing activities related to launch of new solutions and on-site customer visits with the goal of better understanding our customer needs. In 2009, the Company expects to continue its use of various external consultants for strategic, advisory and operational purposes.

Financing expenses and amortization expense are consistent quarter to quarter. Foreign exchange gains (losses) are a continuing exposure for the Company. See the separate discussion outlining the Company's foreign exchange strategy.

## Liquidity and Capital Resources

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. During the current economic climate, in which borrowing is relatively difficult, this risk is compounded. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

As outlined in note 13, the current portion of contracted obligations comprising of the demand term loan and leases totals \$673,910 (including \$125,500 of other shared costs). Maintaining the UK premises (a monthly lease) for twelve months in 2009 will cost \$94,000. As at November 30, 2008, the Company had cash and cash equivalents of \$1,425,994. As at November 30, 2008, accounts receivable were \$2,035,651 (November 30, 2007 - \$2,025,907). To maintain liquidity, the Company must collect its accounts receivable and continue to sell its products and services to credit worthy customers and collect such amounts on a timely basis. All of the Company's other financial liabilities have contractual maturities of less than 45 days.

In 2009, the decrease in cash balances resulted primarily from use of cash in financing (\$981,290) and investing activities (\$225,068) in excess of a positive operating cash flow (\$675,245). Also see **Share Capital and Deficit** for a discussion of use of cash related to a Shareholder Consolidation Plan. In November 2008, the Company redeemed the fourth and final tranche of its preferred shares (\$575,000).

During the year, the Company financed its investing activities of \$225,068 through capital leases. The Company intends to finance future capital investments in a similar manner.

Accounts payable and accrued liabilities as at November 30, 2008 were \$659,678 (November 30, 2006 - \$752,731). The decrease is primarily due to increases in trade payables associated with increased operations and bonus / commissions owing to employees.

As at November 30, 2008, deferred revenue was \$3,942,103 (November 30, 2006 - \$3,880,371). Deferred revenue consists of billed yet unearned initial license sales, renewals and professional services.

<i>Deferred Revenue</i>	November 30, 2008	November 30, 2007
Initial license sales	\$ 1,563,371	\$ 1,684,454
Renewals	1,657,463	1,244,604
Professional services	654,225	951,313
Current	3,875,059	3,880,371
Long-term renewals	67,044	-
Total by source	<u>\$ 3,942,103</u>	<u>\$ 3,880,371</u>
North America	\$ 3,469,627	\$ 3,267,025
Europe	472,476	613,346
Total by territory	<u>\$ 3,942,103</u>	<u>\$ 3,880,371</u>

Deferred initial license and renewal and maintenance revenue will fluctuate with the timing of initial license and renewal and maintenance billings. Deferred initial license sales are expected to grow as the business expands. Significant renewals occur in the fourth quarter of each year, as a result, deferred renewal and maintenance revenues will generally decline throughout the year with significant growth in the fourth quarter. Management anticipates that this pattern will continue.

Deferred service revenues will fluctuate depending upon contract billing terms and service delivery. The value of newly signed unbilled services contracts with a future delivery and the value of the unbilled portion of existing service contracts are not reflected in either the balance sheet or income statement.

### *Share Capital and Deficit*

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company defines its capital as shareholder's equity plus term loans and capital leases. The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. To maintain or adjust its capital structure, the Company may issue additional shares, raise debt or refinance existing debt with different characteristics.

At November 30, 2008, the Company had share capital of \$1,813,106 (2007 - \$13,588,928), contributed surplus of \$691,753 (2007 - \$367,233) and a deficit of \$3,219,964 (2006 - \$14,514,219).

On January 3, 2008 and effective January 21, 2008, shareholders of the Company approved a Shareholder Consolidation Plan ("Plan"). Under the terms of the Plan, outstanding common shares were consolidated on the basis of 7,500 pre-consolidated common shares for 1 consolidated common share, followed by the immediate deconsolidation of the consolidated shares on the basis of 1 to 1,500. Under the terms of the Plan, the holders of less than 7,500 pre-consolidation shares who did not elect to increase their holdings to 7,500 or more common shares prior to the effective date received a cash payment of \$0.18 per common share and such pre-consolidation shares (3,985,298) were cancelled.

On April 24, 2008, the shareholders of the Company approved a reduction in the stated capital of the Company with a corresponding reduction in the deficit. Shareholders approved a \$13,000,000 reduction that was capped by management at \$11,000,000 based on the amount of the deficit in the legal entity Angoss Software Corporation. The total shareholders' deficit remains unchanged as a result of the reduction.

On November 14, 2008, the fair value of the expired warrants, \$305,820, was transferred to contributed surplus on expiry of the warrants.

The effect of these transactions on the common shares outstanding and shareholders' equity was as follows:

	Common Shares Outstanding	Shareholders' Equity, Common Shares
Issued and outstanding common shares before consolidation	40,995,771	\$ 13,588,928
Common shares purchased for cancellation	<u>(3,985,298)</u>	<u>(775,822)</u>
Common shares to be consolidated	37,010,473	
Reduction in common shares outstanding through consolidation	<u>(29,608,411)</u>	
Issued and outstanding Common shares after consolidation	<u>7,402,062</u>	
Reduction in stated capital		<u>(11,000,000)</u>
		<u>\$ 1,813,106</u>

Expenses associated with the consolidation were as follows:

Common shares purchased for cancellation at \$0.18	\$ 717,354
Legal, transfer agent and other fees	58,468
	<u>\$ 775,822</u>

Under the terms and conditions of all warrants and stock options issued and outstanding, the implementation of the Plan has resulted in a corresponding consolidation of all outstanding warrants and options on an effective 5 to 1 basis. The exercise price of the warrants and options increased by the same ratio. As at November 30, 2007, the number of common shares, warrants and options outstanding has been restated to reflect the effective 5 to 1 consolidation before taking into account the purchase and cancellation of common shares on January 21, 2008.

**Commitments and Obligations**

	<u>Payments Due by Period</u>		
	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>
Term Loan	\$ 696,429	\$ 214,286	\$ 482,143
Capital Leases	245,352	115,323	130,029
Operating Leases	702,983	231,271	471,712
<b>Total Contractual Obligations</b>	<b>\$ 1,644,764</b>	<b>\$ 560,880</b>	<b>\$ 1,083,884</b>

In order to support a growing sales and professional services business and internal infrastructure, the Company has leased computer equipment under capital leases. Operating leases have been secured for premises and certain other equipment. Future minimum annual payments do not include the Company's share of premise's business and realty taxes and other operating costs estimated to be \$125,500 per year plus any related 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 2009, not included above, is \$94,000.

**Class A Preferred Shares, Series 1**

In November 2008, the final redemption of 575,000 Class A Preferred shares, Series 1 ("Series 1") for \$575,000 took place. On November 14, 2008, 679,600 outstanding warrants issued in connection with the Series 1 expired. During the twelve months ended November 30, 2008 and 2007, no Series 1 Warrants were exercised. The fair value of the expired warrants, \$305,820, was transferred to contributed surplus on expiry of the warrants.

For the twelve months ended November 30, 2008, the dividend expense on Series 1 was \$36,684 (2007 – \$78,795).

**Repayable Contribution Agreement**

Under the terms of a 2003 agreement with the National Research Council of Canada ("NRC"), the NRC provided a repayable contribution of \$246,600 towards the development of a defined project. In 2008, final amounts were repaid and no further amounts are owing to the NRC.

**Demand Term Loan**

In August 2008, the Company borrowed \$750,000 and used the proceeds to repay its existing demand loan and replenish cash used in the January 2008 buy-back of shares prior to the consolidation [note 7]. The non-revolving term loan is repayable in equal monthly installments over 42 months.

2009	\$ 214,286
2010	214,286
2011	214,286
2012	53,571
	<u>696,429</u>
Less current portion	(214,286)
Long-term portion	<u>\$ 482,143</u>

Interest is at prime plus 2.0%. The term loan and a bank guarantee of capital lease is secured by a \$423,000 GIC [2007 - \$255,000] and the GIC is a restricted investment. The term loan is also secured by first ranking General Security Agreement on all the Company's assets in Canada and the US.

Until such time all amounts owing to the bank are repaid, the Company shall also maintain a number of standard business operating procedures and certain financial covenants calculated quarterly.

Subsequent to the year end, the financial covenants of the term loan were re-negotiated as a result of the acquisition of dThree, Inc. [note 16]. Management expects to meet these amended covenants over the remaining term of the loan. If the Company is in breach of any of the covenants over the remaining term of the loan, management intends to work with the lenders to obtain a waiver or re-negotiate the terms of the covenants.

Interest expense for the twelve months ended November 30, 2008 was \$26,684 (2007 – \$19,366).

### ***Capital Leases***

During 2008, the company financed server hardware for \$55,202 and made repayments \$116,111. Interest expense for the twelve months ended November 30, 2008 was \$20,351 (2007 – \$19,932).

### **Off-Balance Sheet Arrangements**

As at November 30, 2008 and November 30, 2007, the Company had not entered into any off balance sheet arrangements.

### **Transactions with Related Parties**

As at November 30, 2008, annual and meeting fees payable to directors acting in their capacity as directors were \$16,258 (2007 - \$16,258). For the year ended November 30, 2008, directors' fee expense was \$50,000 (2007 - \$50,000).

During 2008, certain of the officers, directors and employees received their pro-rata share of dividends and redemption proceeds paid in 2008 and 2007.

### **Subsequent Event / Proposed Transactions**

On December 24, 2008, the Company acquired the assets of dThree, Inc. for total consideration of \$1,888,000 subject to the payment of additional consideration of up to \$750,000 based on achievement of specified revenue targets during the period from closing to January 31, 2010. The consideration, including additional purchase consideration if any, was financed by one lender (Acquisition Debt – "AD"). The AD bears interest at prime plus 3%, requires monthly interest-only payments until maturity date and the entire AD amount is due in 36 months. If revenue from the former business of dThree during the first 13 months after acquisition is less than \$1,888,000 then \$1,000,000 of the AD due at month 36 is to be repaid on a blended basis over the next twelve months.

The acquired assets of dThree include the IntelliMaxx platform, customer contracts, capital assets, leased assets (including related liabilities) cash and accounts receivable. Operating as a separate division of the Company, the acquired assets of dThree provide a new, better integrated, intelligent, and more efficient suite of marketing analytics solutions to the market.

As required by the terms of the term loan, the Company's bank consented to the transaction and amended certain financial covenants associated with the Demand Term Loan.

There are no other proposed asset, business acquisition or disposition transactions pending as at the date of this MD&A.

## Risks

The Company continues 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.

The Company continues to focus on improving revenue growth and operating profit through the expansion of analyst software and predictive analytics solutions sales, while improving the productivity of existing sales and professional 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 control general and administrative expenses.

In the context of the Company's overall objectives, the Company intends to continue to manage its business by the hiring of additional personnel in several areas to support its growth objectives, provided that profitability and cash flow objectives are met. During 2009, 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 primarily in North America.

## 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.

Historically, the Company's success has been driven by highly usable interfaces, comprehensive analytical capabilities, efficient performance, consistent quality, connectivity capabilities, and recognized brand names. The Company considers its primary worldwide competitor in the sale of packaged software 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 data mining tools, the Company competes with offerings from SAS and SPSS, as well as from a large number of small organizations.

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 non-disclosure 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 and in order to activate the software, the end-user must also receive from the Company a license key that is delivered separately 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 non-disclosure agreements with its employees. Despite these restrictions, the possibility exists for competitors or users to copy aspects of the Company products or to obtain information which the Company regards as a trade secret. The Company has applied for three patents with respect to its technology to date and will continue to file patents to protect its intellectual property as appropriate. 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 and KnowledgeSERVER are registered trademarks and StrategyBUILDER a trademark, all used in connection with the product lines of the Company;
- Credit Risk Reporting & Analytics, FundGUARD, Claims & Payments Analysis, ClaimGUARD, and Telecom Marketing Analytics are trademarks used in connection with the Company's industry specific predictive analytics solution; and
- "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.

### ***Foreign Currency***

The Company operates internationally. Accordingly, a portion of its financial resources is held in currencies other than the Canadian dollar. The Company policy to manage its financial exposure to certain foreign exchange fluctuations and to attempt to neutralize the impact of foreign exchange movements is outlined above.

### ***Impacts of Fluctuations in Revenues***

The Company has experienced fluctuations in its operating results on a quarterly and annual basis. The Company's quarterly operating results fluctuate due to several factors, including:

- The cyclical nature of customer purchases of enterprise software systems and tools;
- A shift from perpetual software license sales to annual term license;
- 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, billed revenue in any quarter is 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.

A significant portion of the Company's operating expenses are planned and fixed based on revenue forecasts (i.e. compensation expenses). If 2009 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.

## Critical Accounting Estimates and Policies

The Company's financial statements for the year ended November 30, 2008 have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Management makes certain estimates and relies on certain assumptions relating to reporting the Company's assets and liabilities as well as operating results in order to prepare the financial statements in conformity with Canadian GAAP. On an on-going basis, the Company evaluates its estimates and assumptions including those related to revenue, the valuation of accounts receivable, the estimation of useful lives of the various classes of fixed assets, stock-based compensation expense, and the measurement of income tax valuation allowances.

- The Company's revenue is derived from product sales, renewal contracts and services. The Company recognizes revenue in accordance with EIC 141, "Revenue Recognition", and EIC 142, "Revenue Arrangements with Multiple Deliverables".
- In the determination of the valuation of accounts receivable, including the allowance for doubtful accounts, the Company relies on current customer information, payment history and trends as well as future business and economic conditions.
- The estimation of useful lives of the various classes of fixed assets is based upon history and experience of similar assets within each class.
- The fair value of stock options is based on certain estimates applied to the Black-Scholes option-pricing model, including the expected life of the options, the volatility of the underlying stock, the risk-free interest rate and expected dividends. Changes in these estimates could significantly impact the fair value and compensation expense of the options issued in future periods.
- The measurement of the income tax valuation allowance is based upon estimates of future taxable income and the expected timing of reversals of temporary differences. Actual results may differ from estimates and assumptions.

## Changes in Accounting Policies

Effective December 1, 2007 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) during 2006:

Section 1506, Accounting Changes;  
 Section 1535, Capital Disclosures;  
 Section 3862, Financial Instruments – Disclosures; and  
 Section 3863, Financial Instruments – Presentation.

Accounting Changes, Section 1506 allows for voluntary changes in accounting policy only when such changes enhance the relevance and reliability of the financial statements and the comparability of the financial statements over time and with the financial statements of other entities. The standard requires that changes in accounting policy be applied retrospectively unless doing so is impracticable and requires prior period errors to be corrected retrospectively. The section also requires enhanced disclosures of the effects of changes in accounting policies and the anticipated effect of changes to be applied in future periods.

The adoption of Section 1506 has had no impact on the Company's unaudited consolidated interim financial statements.

Capital Disclosures, Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any externally imposed capital requirements and, if it has not complied, the consequences of such non-compliance.

Adoption of Section 1535 had no material effect on the Company's unaudited consolidated interim financial statements.

Financial Instruments – Disclosures, Section 3862 replaces the disclosure requirements of Section 3861, Financial Instruments – Disclosure and Presentation (“Section 3861”) and is based on IFRS 7, Financial Instruments: Disclosures. It places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3862 requires disclosure, by class of financial instrument, that enables users to evaluate the significance of financial instruments on an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

Adoption of Section 3862 had no material effect on the Company's unaudited consolidated interim financial statements..

Financial Instruments – Presentation, Section 3863 carries forward unchanged the presentation requirements of Section 3861. Adoption of Section 3863 had no material effect on the Company's unaudited consolidated interim financial statements.

### Recent Accounting Pronouncements

#### CICA Section 1400: General Standards of Financial Statement Presentation

In April 2007, the CICA Accounting Standards Board amended CICA Handbook Section 1400, General Standards of Financial Statement Presentation. These amendments require management to disclose any uncertainties that cast significant doubt on the entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. The standard is effective for years beginning on or after January 1, 2008. The Company is analyzing the impact of this standard on its consolidated financial statements.

#### CICA Section 3031: Inventories

In June 2007, the CICA issued Handbook Section 3031, Inventories, which replaces CICA Handbook Section 3030, Inventories. The standard requires inventory to be measured at the lower of cost or net realizable value and requires any write-down to be reversed if the value subsequently recovers, provides expanded guidance on the determination of cost, including the allocation of certain overhead costs and expands disclosures. The standard becomes effective for years beginning on or after January 1, 2008. The Company is analyzing the impact of this standard on its consolidated financial statements.

#### CICA 3064: Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Other Intangible Assets, which replaces Handbook Sections 3062, Goodwill and Other Intangible Assets, and 3450, Research and Development Costs. This standard establishes the standards for the recognition, measurement and disclosure of goodwill and intangible assets. The standard becomes effective for years beginning on or after October 1, 2008. The Company is analyzing the impact of the new standard on its consolidated financial statements.

### Financial and Other Instruments

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

Cash and cash equivalents and restricted investments include such items as GIC's 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 Company, in the normal course of business, is exposed to credit risk on its accounts receivable, which is uncollateralized. 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. Accounts receivable are net of an applicable allowance for doubtful accounts, which is established based on individual customer exposures. As at November 30, 2008, two customers represented 35.5% of the outstanding accounts receivable balance. As at November 30, 2007, two customers represented 31.8% of the outstanding accounts receivable balance. Subsequent to the respective year-ends, such amounts were collected.

The carrying amount of financial assets represents the maximum credit exposure, which at the reporting date was:

Cash and cash equivalents	\$ 1,425,994
Restricted investments	423,000
Accounts receivable	2,035,651
	<u>\$ 3,884,645</u>

The aging of accounts receivable at the reporting date at the reporting date is as follows:

Current	\$ 1,559,949	76.6%
30 – 60	76,487	3.8%
61 – 90	28,703	1.4%
90 +	370,512	18.2%
Total	<u>\$ 2,035,651</u>	<u>100.0%</u>

No past due accounts receivable are considered to be impaired or have been renegotiated with different terms.

## Outstanding Share Data

Share capital consists of the following:	Authorized #	Outstanding #	Conversion rate
Common Shares	Unlimited	7,402,062	-
Warrants – 1 warrant is convertible to 1 Common share		76,000	\$1.25
Options – 1 option is convertible to 1 Common share	1,140,000	436,613	At rates varying from \$0.65 to \$1.40 per option

Additional information about the Company’s share capital is detailed in Notes 6 and 7 to the AFS.

## Controls over Financial Reporting

In accordance with National Instrument (“NI”) 52-109 (Certification of Disclosure in Issuer’s Annual and Interim Filings), the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of the Company file a Venture Issuer Basic Certificate with respect to the financial information contained in the audited annual financial statements and respective accompanying Management’s Discussion and Analysis. The Venture Issuer Basic Certification includes a ‘Note to Reader’ stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

That being said, the Chief Executive Officer and Chief Financial Officer believe that they have established and maintain such disclosure controls and procedures to ensure that material information of the Company is made known to them. The Company also believes that it maintains a set of internal controls over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. There were no changes in the Company’s internal control over financial reporting

during the year that would have materially affected, or were reasonably likely to materially affect the Company's internal control over financial reporting.

### **Corporate Governance**

The Company's Board of Directors includes a majority of independent Directors and its Committees include Audit and Governance and Compensation.

The members of the Audit Committee are all independent Board members and are financially literate. The Committee meets regularly to approve the release of financial information including the MD&A and also to oversee relations with auditors and stewardship issues including compliance with new regulatory requirements.

### **Compensation Structures**

The Company has designed compensation structures aligned to shareholder interests. Bonus allocations are largely driven by job function. In sales, a bonus, in addition to commissions, is based on performance and achieving defined objectives. Service bonuses are based on work completion and client satisfaction. For all other staff, other than senior management, bonus amounts are budgeted on an annual basis and allocated to individuals based entirely on merit. Bonuses for senior management are set by the Compensation Committee and are based on achieving financial objectives. The workplace culture of the organization is one in which outstanding performance is rewarded.

## MANAGEMENT'S REPORT

The accompanying consolidated financial statements of **Angoss Software Corporation** are the responsibility of management and have been reviewed and approved by the Board of Directors on recommendation of the Audit Committee. Management has prepared financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies, which management believes are appropriate for the Company, are described in the notes to the consolidated financial statements. The Company maintains a system of internal control and appropriate processes to provide reasonable assurance that assets are safeguarded and to ensure that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit committee of three non-management directors is appointed by the board. The Audit Committee reviews the consolidated financial statements, audit process and financial reporting with management and with the external auditors and reports to the board of directors prior to the approval of the audited consolidated financial statements for publication.

PricewaterhouseCoopers LLP, Chartered Accountants, the Company's external auditors, who are appointed by the shareholders, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.



Eric Apps  
President



Lon Vining  
Chief Financial Officer

March 18, 2009.

## INDEPENDENT AUDITORS' REPORT

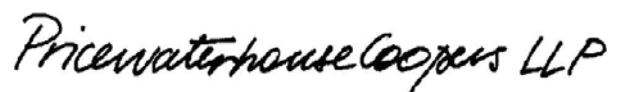
To the Shareholders of **Angoss Software Corporation**

We have audited the consolidated balance sheet of **Angoss Software Corporation** as at November 30, 2008 and 2007 and the consolidated statements of income and deficit and comprehensive income and cash flows for the year then ended. These consolidated 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 consolidated 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, 2008 and 2007 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,  
March 18, 2009.



Chartered Accountants, Licensed Public Accountants

**Angoss Software Corporation**  
**Consolidated Balance Sheets**  
(Stated in Canadian dollars)

As at	November 30, 2008	November 30, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 4]</i>	\$ 1,425,994	\$ 1,957,107
Restricted investments <i>[note 13]</i>	423,000	378,000
Accounts receivable <i>[note 4]</i>	2,035,651	2,025,907
Prepaid expenses and other assets	414,201	467,440
<b>Total current assets</b>	<b>4,298,846</b>	<b>4,828,454</b>
Capital assets, net <i>[note 5]</i>	721,197	862,468
	<b>\$ 5,020,043</b>	<b>\$ 5,690,922</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[notes 4 &amp; 10]</i>	\$ 659,678	\$ 752,731
Dividends payable on preferred shares <i>[note 6]</i>	-	10,613
Current portion of lease inducement	27,763	27,763
Current portion of repayable contribution	-	10,988
Current portion of term loan <i>[note 13]</i>	214,286	60,000
Current portion of capital leases <i>[note 13]</i>	102,853	110,685
Current redeemable portion of preferred shares <i>[note 6]</i>	-	547,847
Deferred revenue <i>[note 11]</i>	3,875,058	3,880,371
<b>Total current liabilities</b>	<b>4,879,638</b>	<b>5,400,998</b>
Term loan <i>[note 13]</i>	482,143	195,000
Deferred revenue <i>[note 11]</i>	67,045	-
Capital leases <i>[note 13]</i>	121,970	175,047
Lease inducement	94,952	122,715
<b>Total liabilities</b>	<b>5,645,748</b>	<b>5,893,760</b>
Commitments and Contingencies <i>[notes 13 &amp; 14]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 7]</i>	2,554,259	14,311,381
Deficit <i>[note 7]</i>	(3,179,964)	(14,514,219)
<b>Total shareholders' equity</b>	<b>(625,705)</b>	<b>(202,838)</b>
	<b>\$ 5,020,043</b>	<b>\$ 5,690,922</b>

See accompanying notes

On behalf of the Board:



John Gardner  
Director

Eric Apps  
Director

**Angoss Software Corporation**  
**Consolidated Statements of Income and Deficit and Comprehensive Income**  
(Stated in Canadian dollars)

For the years ended	November 30, 2008	November 30, 2007
<b>Revenue [note 11]</b>	<b>\$ 7,541,523</b>	<b>\$ 7,361,476</b>
<b>Operating cost and expenses</b>		
Sales and marketing	4,593,452	4,076,190
General and administration	1,670,868	1,603,250
Research and development, net	912,218	823,572
	<u>7,176,538</u>	<u>6,503,012</u>
<b>Income before the following</b>	<b>364,985</b>	<b>858,464</b>
Other income	19,895	64,234
Amortization of capital assets	(366,339)	(330,695)
Amortization of deferred financing costs	(16,437)	(17,151)
Interest accretion on Preferred shares	(10,716)	(43,802)
Dividend expense on Preferred shares [note 6]	(36,684)	(78,795)
Foreign exchange gain (loss)	398,251	(358,034)
Stock based compensation [note 7]	(18,700)	(22,875)
<b>Net income and comprehensive income for the period</b>	<b>334,255</b>	<b>71,346</b>
Deficit, beginning of period	(14,514,219)	(14,585,565)
Deficit reduction [note 7]	11,000,000	
<b>Deficit, end of period</b>	<b>\$ (3,179,964)</b>	<b>\$ (14,514,219)</b>
<b>Basic and diluted earnings per share [note 7]</b>	<b>\$ 0.05</b>	<b>\$ 0.01</b>

Weighted average number of shares outstanding [note 7]

Basic	7,380,744	7,976,401
Diluted	7,406,943	8,123,381

See accompanying notes

**Angoss Software Corporation**  
**Consolidated Statements of Cash Flows**  
(Stated in Canadian dollars)

For the years ended	November 30, 2008	November 30, 2007
<b>OPERATING ACTIVITIES</b>		
Net income and comprehensive income for the period	\$ 334,255	\$ 71,346
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Interest accretion on Preferred shares	10,716	43,802
Amortization of capital assets	366,339	330,695
Amortization of deferred financing costs	16,437	17,151
Stock-based compensation	18,700	22,875
	<u>746,447</u>	<u>485,869</u>
Changes in non-cash working capital balances		
(Increase) in restricted investments	(45,000)	(378,000)
(Increase) in accounts receivable	(9,744)	(194,497)
Decrease in prepaid expenses	53,239	12,151
(Decrease) in accounts payable and accrued liabilities	(93,053)	50,488
(Decrease) in dividends payable on Preferred shares	(10,613)	(7,720)
Increase in deferred revenue	61,732	679,052
(Decrease) increase in lease inducement	(27,763)	6,538
<b>Cash provided by operating activities</b>	<u>675,245</u>	<u>653,881</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(225,068)	(785,604)
<b>Cash used in investing activities</b>	<u>(225,068)</u>	<u>(785,604)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of Preferred shares	(575,000)	(575,000)
Preferred share issuance costs	-	-
Repayable contributions	(10,988)	(77,847)
Shares acquired and cancelled on consolidation [note 7]	(775,822)	-
Lease inducement	-	143,940
Capital leases - net	(60,909)	171,725
Term loan, net of repayments	441,429	255,000
Issuance of common shares on exercise of options	-	77,027
<b>Cash (used) by financing activities</b>	<u>(981,290)</u>	<u>(5,155)</u>
<b>Net (decrease) in cash during the period</b>	<u>(531,113)</u>	<u>(136,878)</u>
Cash and cash equivalents, beginning of period	1,957,107	2,093,985
<b>Cash and cash equivalents, end of period</b>	<u>\$ 1,425,994</u>	<u>\$ 1,957,107</u>
<b>Supplemental cash flow information</b>		
Dividends and interest paid	<u>\$ 94,332</u>	<u>\$ 125,814</u>

See accompanying notes

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2008

[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. Modelers and business analysts in the banking, insurance, telecommunications, health care and pharmaceutical, 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 modeling; (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 consolidated financial statements of Angoss have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"]. Certain of the 2007 comparative amounts have been reclassified to conform to the current year's presentation.

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.

On January 3, 2008 and effective January 21, 2008, shareholders of the Company approved a Shareholder Consolidation Plan ("Plan"). Share capital and related information presented in these consolidated financial statements is presented on a consolidated basis.

On April 24, 2008, shareholders of the Company approved a Reduction of Stated Capital ("Reduction") - see Note 7 – Share Capital.

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 Sapien Information Services Corporation, incorporated under the Laws of Ontario, Canada. All significant inter-company accounts and transactions have been eliminated upon consolidation.

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

**Financial Instruments** The Company designated its cash, cash equivalents, restricted investments and short-term investments as held-for-trading, which are measured at fair value. Changes in the fair value of the Company's short-term investments are included in investment income each period.

Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Accounts payable, accrued liabilities and notes payable, are classified as other financial liabilities, which

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2008

[in Canadian dollars unless otherwise indicated]

are measured at amortized cost.

Preferred shares, term debt and capital leases are classified as other financial liabilities and recorded at amortized cost using the effective interest method. Debt issuance and transaction costs related to other financial liabilities are included in the carrying value of the debt and amortized over the term of the debt using the effective interest method.

The Company had neither available-for-sale, nor held-to-maturity instruments during the twelve months ended November 30, 2008.

**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

**Leases and Leasehold Improvements** The total lease payments over the term of the premise lease, including contractual increases, are expensed on a straight-line basis over the lease term.

Leasehold inducements received in connection with leasing of premises are amortized on a straight-line basis over the expected term of the lease. Such amortization is recorded as a reduction of rent expense.

**Revenue Recognition** Revenue consists of the sale of specific Company products and the related license revenue (sold solely on an annual basis and renewable annually), services 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 corrections, unspecified upgrades during the license period, installation and technical support. Services revenue is earned through fees for data mining consulting, engineering and user-training 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. VSOE of fair value is based on the price charged when the elements are 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

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2008

[in Canadian dollars unless otherwise indicated]

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 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.

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

Renewal and maintenance agreements are sold solely on an annual basis and are generally priced based on a percentage of the current product list price. Revenue from renewal and maintenance 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 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. Costs associated with preparing and filing patents are expensed as incurred.

**Stock-Based Compensation** The Company has stock-based compensation plans, which are described in Note 7 – Share Capital. The Company recognizes, at the grant date, the compensation costs of the stock options granted to directors, officers, employees and consultants, measured at fair value using the Black-Scholes option pricing model and expensed over the period in which the related services are rendered, with a corresponding credit to contributed surplus. Any consideration received upon exercise of options and issues of shares is credited to share capital and adjusted to contributed surplus.

**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 November 30th rates;
- Non-monetary assets - at historical rates; and
- Revenue and expenses - at the weighted 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 net income (loss) for the year.

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 net income (loss) for the year.

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2008

[in Canadian dollars unless otherwise indicated]

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 consolidated balance sheet dates and with the corresponding gain/loss recorded in the consolidated statements of net income (loss). The Company does not enter into foreign exchange forward contracts for speculative purposes.

**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.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that one or all of the future tax assets will not be realized.

**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.

Significant areas requiring the use of management estimates include the useful lives of capital assets, the amount of investment tax credits to be received, stock-based compensation and the valuation allowances with respect to future tax assets. 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 stock method.

**Fair Value** The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

The carrying values of cash and cash equivalents, restricted investments, 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 carrying value of the term loans approximate its fair value as the interest rate on the term loans approximate the market rates available to the Company for a similar financial instrument.

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2008

[in Canadian dollars unless otherwise indicated]

### 3. CHANGES IN ACCOUNTING POLICY

**New Recommendations** Effective December 1, 2007 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) during 2006:

Section 1506, Accounting Changes;  
 Section 1535, Capital Disclosures;  
 Section 3862, Financial Instruments – Disclosures; and  
 Section 3863, Financial Instruments – Presentation.

**Accounting Changes** Section 1506 allows for voluntary changes in accounting policy only when such changes enhance the relevance and reliability of the financial statements and the comparability of the financial statements over time and with the financial statements of other entities. The standard requires that changes in accounting policy be applied retrospectively unless doing so is impractical and requires prior period errors to be corrected retrospectively. The section also requires enhanced disclosures of the effects of changes in accounting policies and the anticipated effect of changes to be applied in future periods.

The adoption of Section 1506 has had no impact on the Company's consolidated financial statements.

**Capital Disclosures** Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any externally imposed capital requirements and, if it has not complied, the consequences of such non-compliance.

The section related to disclosure and presentation only and did not have an impact on the Company's consolidated financial results (Note 7 – Share Capital).

**Financial Instruments – Disclosures** Section 3862 replaces the disclosure requirements of Section 3861, Financial Instruments – Disclosure and Presentation ("Section 3861") and is based on IFRS 7, Financial Instruments: Disclosures. It places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3862 requires by class of financial instrument, disclosure that enables users to evaluate the significance of financial instruments on an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

The section relates to disclosure and presentation only and did not have an impact on the Company's consolidated financial results (Note 4 – Financial Instruments).

**Financial Instruments – Presentation** Section 3863 carries forward unchanged the presentation requirements of Section 3861.

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2008

[in Canadian dollars unless otherwise indicated]

### 4. RISKS

**Credit Risk** The Company, in the normal course of business, is exposed to credit risk on its accounts receivable, which are uncollateralized. 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. Accounts receivable are net of an applicable allowance for doubtful accounts, which is established based on individual customer exposures. As at November 30, 2008, two customers represented 35.5% of the outstanding accounts receivable balance. As at November 30, 2007, two customers represented 31.8% of the outstanding accounts receivable balance. Subsequent to the respective year-ends, such amounts were collected. The carrying amount of financial assets represents the maximum credit exposure, which at the reporting date was:

Cash and cash equivalents	\$ 1,425,994
Restricted investments	423,000
Accounts receivable	2,035,651
	<u>\$ 3,884,645</u>

The aging of accounts receivable at the reporting date is as follows:

Current	\$ 1,559,949	76.6%
30 – 60	76,487	3.8%
61 - 90	28,703	1.4%
90 +	370,512	18.2%
Total	<u>\$ 2,035,651</u>	<u>100.0%</u>

No past due accounts receivable are considered to be impaired or have been renegotiated with different terms.

**Currency Risk** The Company sells software and services in both Canadian and foreign currencies. The sale of software and services in foreign currencies gives rise to the risk that the Company's earnings and cash flows may be adversely impacted by fluctuations in foreign exchange rates. Certain purchases of services and equipment are also made in non-Canadian currencies. The Company uses its natural hedges to mitigate, to the extent possible, the impact of foreign exchange fluctuation, 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 anticipated future license renewal billings.

As at November 30, 2008 and November 30, 2007, the Company had no outstanding foreign exchange forward contracts.

As at November 30, 2008, 81.4% (November 30, 2007 – 88.2%) of cash and cash equivalents and 73.2% (November 30, 2007 – 65.3%) of accounts receivable are denominated in foreign currencies. As at November 30, 2008 – 14.6% (November 30, 2007 – 19.3%) of accounts payable and accrued liabilities are denominated in foreign currencies.

As at November 30, 2008, the \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.2372 and \$1.8986, respectively (2007 - \$1.0008 and \$2.0582, respectively). For the twelve months ended November 30, 2008, the weighted average \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.0621 and \$1.9780, respectively (2007 - \$1.0678 and \$2.1518, respectively). Assuming that all other variables remain constant, an increase of 10% (with opposite impacts on a decrease of similar proportion) in the Canadian dollar against both the US and UK currencies would have the following impact on the ending balances of certain balance sheet items at November 30, 2008:

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Cash and cash equivalents	\$ (115,992)
Accounts payable and accrued liabilities	16,509
Net foreign exchange loss	<u>\$ (99,483)</u>

The impact on the net income is equivalent to the net foreign exchange loss presented in the table above. There is no impact on other comprehensive income.

**Liquidity Risk** Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. During the current economic climate, in which borrowing is relatively difficult, this risk is compounded. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at November 30, 2008, the Company had cash and cash equivalents of \$1,425,994 and restricted investments of \$423,000.

As outlined in note 13, the current portion of contracted obligations comprising of the demand term loan and leases totals \$673,910 (including \$125,500 of other shared costs under operating leases). Maintaining the UK premises (a monthly lease) for twelve months in 2009 will cost \$94,000. To maintain liquidity the Company must collect its accounts receivable and continue to sell its products and services to credit worthy customers and collect such amounts on a timely basis. All of the Company's other financial liabilities have contractual maturities of less than 45 days.

**Interest Rate Risk** Interest rate risk arises because of the fluctuation in market interest rates. The Company is subject to interest rate risk on its cash and cash equivalents, restricted investments, and term loan. If a shift in interest rates of 10% were to occur, the impact on the related net income for the period would be insignificant.

### 5. CAPITAL ASSETS

Capital assets consist of the following:

	November 30, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 1,011,174	\$ 863,888	\$ 147,286
Duplication equipment	7,431	7,278	153
Equipment under capital lease	451,552	239,182	212,370
Office furniture and equipment	109,069	50,532	58,537
Computer software	539,798	504,262	35,536
Leasehold improvements	434,499	167,184	267,315
	<u>\$ 2,553,523</u>	<u>\$ 1,832,326</u>	<u>\$ 721,197</u>
	November 30, 2007		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 945,980	\$ 788,841	\$ 157,139
Duplication equipment	7,431	7,212	219
Equipment under capital lease	396,350	120,103	276,247
Office furniture and equipment	81,623	38,245	43,378
Computer software	498,062	438,342	59,720
Leasehold improvements	405,040	79,275	325,765
	<u>\$ 2,334,486</u>	<u>\$ 1,472,018</u>	<u>\$ 862,468</u>

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### 6. PREFERRED SHARES

	<u>November 30, 2008</u>	<u>November 30, 2007</u>
<b>Authorized</b>		
Unlimited Class A Preferred shares, issuable in series		
<b>Issued</b>		
7% Class A Preferred shares, Series 1		
Nil as at November 30, 2008	\$ Nil	
575,000 as at November 30, 2007		\$ 547,847

**Series 1** In November 2003, the Company issued 2,300,000 Class A Preferred shares, Series 1 ("Series 1") and 3,450,000 warrants ("Series 1 Warrants") to acquire 690,000 common shares of the Company at \$1.50 per common share for total proceeds of \$2,300,000. In November 2008, the final redemption of 575,000 Series 1 for \$575,000 took place.

In accordance with CICA recommendations, a portion of Series 1 has been allocated to shareholders' equity as Series 1 contains both a liability and an equity element, the latter 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 Series 1 principal (\$2,300,000) and the value allocated to the Preferred shares (\$1,989,500) on the issue date is accreted as interest expense over the term of 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:

	<u>November 30, 2008</u>	<u>November 30, 2007</u>
Stated value of Series 1 at issue	\$2,300,000	\$2,300,000
Less Cumulative redemptions	(2,300,000)	(1,725,000)
Deferred issue costs		(16,437)
Amount allocated to warrants		(310,500)
Amount allocated to Series 1	-	248,063
Add cumulative interest accretion expense		299,784
Total liability	-	547,847
Less current portion to be redeemed		(547,847)
Long-term liability	\$ -	\$ -

For the twelve months ended November 30, 2008, the interest accretion on Series 1 was \$10,716 (2007 - \$43,802).

For the twelve months ended November 30, 2008, the dividend expense on Series 1 was \$36,684 (2007 - \$78,795).

In 2003, the legal and financial advisor fees associated with the Series 1 issue, \$85,757, were deferred and amortized over five years from the date of issue. For the twelve months ended November 30, 2008, the issuance expenses amortized was \$16,437 (2007 - \$17,151).

### 7. SHARE CAPITAL

On January 3, 2008 and effective January 21, 2008, shareholders of the Company approved the Plan. Under the terms of the Plan, outstanding common shares were consolidated on the basis of 7,500 pre-consolidated common shares for 1 consolidated

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common share, followed by the immediate deconsolidation of the consolidated shares on the basis of 1 to 1,500. Under the terms of the Plan, the holders of less than 7,500 pre-consolidation shares who did not elect to increase their holdings to 7,500 or more common shares prior to the effective date received a cash payment of \$0.18 per common share and such pre-consolidation shares (3,985,298) were cancelled.

On April 24, 2008, the shareholders of the Company approved a reduction in the stated capital of the Company with a corresponding reduction in the deficit. Shareholders approved a \$13 million reduction that was capped by the Company at \$11 million based on the amount of the deficit in the legal entity Angoss Software Corporation. The total shareholders' deficit remains unchanged as a result of the reduction.

The effect of the Plan on the common shares outstanding and shareholders' equity was as follows:

	Common Shares Outstanding	Shareholders' Equity, Common Shares
Issued and outstanding common shares before consolidation	40,995,771	\$ 13,588,928
Common shares purchased for cancellation	<u>(3,985,298)</u>	<u>(775,822)</u>
Common shares to be consolidated	37,010,473	
Reduction in common shares outstanding through consolidation	<u>(29,608,411)</u>	
Issued and outstanding Common shares after consolidation	<u>7,402,062</u>	
Reduction in Stated Capital		<u>(11,000,000)</u>
		<u>\$ 1,813,106</u>
Expenses associated with the consolidation were as follows:		
Common shares purchased for cancellation at \$0.18		\$ 717,354
Legal, transfer agent and other fees		<u>58,468</u>
		<u>\$ 775,822</u>

Under the terms and conditions of all warrants and stock options issued and outstanding, the implementation of the Plan has resulted in a corresponding consolidation of all outstanding warrants and options on an effective 5 to 1 basis. The exercise price of the warrants and options increased by the same ratio.

		Shareholders' Equity	
		2008	2007
<b>Authorized</b>			
Unlimited common shares, Preferred shares [note 6]			
<b>Issued</b>			
Common Shares	7,256,612 as at November 30, 2008	\$ 1,813,106	
	8,053,672 as at November 30, 2007		\$ 13,588,928
Warrants	679,600 at \$1.50	-	305,820
	76,000 at \$1.25	<u>49,400</u>	<u>49,400</u>
		<u>49,400</u>	355,220
Contributed surplus		691,753	367,233
		<u>\$ 2,554,259</u>	<u>\$ 14,311,381</u>

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**Issued Common Shares** During the twelve months ended November 30, 2008, no common shares were issued. During the twelve months ended November 30, 2007, the Company issued 116,103 common shares on the exercise of 116,103 options for total proceeds of \$77,027.

**Warrants** During 2004, the Company issued 76,000 warrants to purchase 76,000 common shares of the Company at \$1.25 per share in connection with a consulting services contract. As at November 30, 2005, all warrants had vested. As at November 30, 2008, none of these warrants had been exercised. The total fair value assigned to the warrants, \$49,400, was expensed in prior years. The warrants expired December 10, 2008 and were not exercised.

On November 14, 2008, 679,600 warrants to purchase 679,600 common shares of the Company at \$1.50 per share in connection with the issuance of Series 1 on November 14, 2003 expired. During the twelve months ended November 30, 2008 and 2007, no Series 1 Warrants were exercised. The fair value of the expired warrants, \$305,820, was transferred to contributed surplus on expiry of the warrants.

On February 25, 2002, the Company issued 20,000 warrants to purchase 20,000 common shares of the Company at US\$1.65 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, 2008, the software had not been released. No value has been assigned to the warrants.

**Stock-Based Compensation Plans** At November 30, 2008, 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, 2008, no shares had been acquired [2007 – nil].

### Stock Option Plan

The Company may grant to employees, officers, directors and consultants options to acquire up to 1,140,000 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, 2008 and 2007 and changes during the years then ended is presented below.

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	Twelve months ended November 30, 2008		Twelve months ended November 30, 2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	514,163	\$ 0.90	737,228	\$ 0.85
Granted	117,500	0.78	118,500	1.15
Exercised	-	-	(116,104)	0.65
Cancelled	(195,050)	0.98	(225,461)	0.95
<b>Outstanding, end of year</b>	<b>436,613</b>	<b>\$ 0.87</b>	<b>514,163</b>	<b>\$ 0.90</b>
<b>Options vested, at end of period</b>	<b>406,697</b>	<b>\$ 1.17</b>	<b>496,246</b>	<b>\$ 0.90</b>

As at November 30, 2008, non-executive directors of the Company held a total of 92,500 options to acquire 92,500 common shares of the Company at prices ranging from \$0.65 to \$1.15 per share. (2007 – 85,000 options to acquire 85,000 common shares at prices ranging from \$0.65 to \$1.15 per share).

During the twelve months ended November 30, 2008, non-executive directors were granted 22,500 options to acquire 22,500 common shares at \$0.68 in accordance with the terms outlined in the annual information circular (2007 – 22,500 options to acquire 22,500 common shares at \$1.15).

During the twelve months ended November 30, 2008, 15,000 options held by non-executive directors to acquire 15,000 common shares at \$0.95 per share expired and were not exercised (2007 – 31,000 options). During the twelve months ended November 30, 2008, non-executive directors exercised nil options (2007 – 10,000 options to acquire 10,000 common shares).

The following table summarizes information about the stock options outstanding as at November 30, 2008:

Exercise price	Options outstanding	Remaining Contractual life [months]	Options vested
\$ 0.65	87,173	7 to 19	87,173
0.68	22,500	55	11,250
0.80	92,800	14 to 51	74,800
0.95	179,140	26	179,140
1.10	31,500	31	30,834
1.15	17,500	43	17,500
1.40	6,000	2	6,000
	<b>436,613</b>		<b>406,697</b>

### Employees and Directors

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. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

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	2008	2007
Number of options granted during the year	117,500	118,500
Number of common shares issued per option exercised	1	1
Weighted average price at time of grant – per share	\$0.78	\$1.15
Weighted average risk-free interest rate	2.92%	4.65%
Dividend yield	0.0%	0.0%
Weighted average volatility factors of the expected market price of the Company's common shares	79.4%	81.8%
Weighted average expected life of the options (in years)	3.0	3.0

Employee stock option expense for the twelve months ended November 30, 2008 was \$18,700 (2007 - \$22,875).

**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, 2008, the legal stated capital of the common shares is \$7,643,710 (November 30, 2007 - \$19,419,532).

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 \$0.01 (2007 - \$0.02).

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

	Twelve Months ended November 30,	
	2008	2007
<b>Basic earnings per share</b>		
Net income	\$ 334,255	\$ 71,346
Weighted average number of common shares outstanding	7,380,744	7,976,401
<b>Basic earnings per share</b>	<b>\$ 0.05</b>	<b>\$ 0.01</b>
<b>Diluted earnings per share</b>		
Net income	\$ 334,255	\$ 71,376
Weighted average number of common shares outstanding	7,380,744	7,976,401
Dilutive effect of stock options and warrants	26,199	146,980
Weighted average number of common shares outstanding	7,406,943	8,123,381
<b>Diluted earnings per share</b>	<b>\$ 0.05</b>	<b>\$ 0.01</b>

**Capital Management** The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company defines its capital as shareholder's equity plus term loans and capital leases. The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. To maintain or adjust its capital structure, the Company may issue additional shares, raise debt or refinance existing debt with different characteristics.

Certain debt is also subject to financial covenants [notes 13 and 16].

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### 8. MAJOR CUSTOMERS

During the twelve months ended November 30, 2008 no one customer accounted for more than 10% of the billed revenue (2007 – one customer accounted for 11% of billed 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	2008	2007
<b>Assets</b>		
Non-capital loss carry-forward benefit		
North America	\$ 74,000	\$ 60,000
Europe	504,000	626,000
Investment tax credit carry forward, net	1,054,000	1,078,000
Undeducted SR&ED pool inducements	993,000	1,082,000
Deferred revenue	1,329,000	1,402,000
Book deductions in excess of tax deductions	383,000	394,000
	<u>4,337,000</u>	<u>4,642,000</u>
Valuation reserve	<u>(4,337,000)</u>	<u>(4,642,000)</u>
	—	\$ —
<b>Future Tax Liabilities</b>		
Tax deductions in excess of accounting	\$ —	\$ —

For Canadian tax purposes, the Company has non-capital losses of Nil that can be applied against future years' taxable income. The Company also has unclaimed SR&ED deductions of \$2,945,000 that can be used to offset taxable income, and \$1,327,000 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 \$212,000 that have a 15-year carry forward period. These losses expire during 2010 through 2022.

For UK tax purposes, the Company has tax losses of \$1,328,000 that may be carried forward indefinitely.

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

**Income Tax Rate Reconciliation** The reconciliation of income taxes computed at the statutory tax rates to income tax expense is as follows:

	2008	2007
Tax at combined federal and provincial tax rate	\$ 113,000	\$ 25,770
Permanent differences	(9,000)	(43,177)
Lower effective tax rates outside Canada	(11,000)	(16,742)
(Decrease) increase in valuation allowance	(305,000)	85,000
Effect of income tax rate changes	177,000	—
Other	35,000	(50,851)
Income tax expense	<u>—</u>	<u>—</u>

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<b>Investment Tax Credit Carry - forwards</b>	As at November 30, 2008, the Company's federal investment tax credits for Canadian tax purposes expire as follows:	<b>Investment tax credits</b>
		\$ 178,000
		189,000
		12,000
		139,000
		182,000
		154,000
		202,000
		74,000
		95,000
		93,000
		\$ 1,318,000

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 consolidated financial statements.

### 10. RELATED PARTY TRANSACTIONS

As at November 30, 2008, fees payable to directors acting in their capacity as directors were \$16,258 (November 30, 2007 - \$16,258). During the twelve months ended November 30, 2008, directors' fee expense was \$50,000 (twelve months ended November 30, 2007 - \$50,000).

During the twelve months ended November 30, 2008, certain of the officers, directors and employees of the Company received their pro-rata share (2008 - 8.0%; 2007 - 8.0%) of Series 1 dividends and redemption proceeds.

### 11. INFORMATION BY GEOGRAPHIC AREA

The Company operates within one industry segment, the development and sale of computer software products, in two geographic areas.

	Twelve months ended November 30, 2008		
	North America	Europe	Consolidated
<b>Revenue</b>			
Customers	\$ 6,306,452	\$ 1,195,854	\$ 7,502,306
Interest income	33,746	5,471	39,217
	\$ 6,340,198	\$ 1,201,325	\$ 7,541,523
Income (loss) before income taxes	\$ (104,973)	\$ 439,228	\$ 334,255
	Twelve months ended November 30, 2007		
	North America	Europe	Consolidated
Revenue			
Customers	\$ 6,346,923	\$ 922,161	\$ 7,269,084
Interest income	92,392	-	92,392
	\$ 6,439,315	\$ 922,161	\$ 7,361,476
Income before income taxes	\$ 65,698	\$ 5,648	\$ 71,346

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Operations in Europe are run as a branch office supported from North America. As such, all R&D and senior management costs are borne by North American operations.

<u>Deferred Revenue</u>	North America	Europe	Consolidated
November 30, 2008	\$ 3,469,627	\$ 472,476	\$ 3,942,103
November 30, 2007	\$ 3,267,025	\$ 613,346	\$ 3,880,371

<u>Capital assets</u>	North America	Europe	Consolidated
November 30, 2008	\$ 697,657	\$ 23,540	\$ 721,197
November 30, 2007	\$ 838,437	\$ 24,031	\$ 862,468

### 12. RESEARCH AND DEVELOPMENT

**Repayable Contribution** Under the terms of a 2003 agreement with the National Research Council of Canada ("NRC"), the NRC provided a repayable contribution of \$246,600 towards the development of a defined project. In 2008, final amounts were repaid and no further amounts are owing to the NRC.

**Ontario Innovation Tax Credit** Research and development expenditures for the years ended November 30, 2008 and 2007 are recorded net of the Ontario Innovation Tax Credit ("OITC") as outlined below.

	<u>2008</u>	<u>2007</u>
Total research and development expenditures	\$ 952,218	\$ 873,572
Less OITC	(40,000)	(50,000)
<u>Research and development expenditures, net</u>	<u>\$ 912,218</u>	<u>\$ 823,572</u>

As at November 30, 2008, prepaid and other assets include \$140,000 on account of OITC claims for the period 2005 through 2008 (2007 - \$239,000 on account of 2002 through 2007). The balance of the OITC will be recognized in the year of receipt.

### 13. COMMITMENTS

**Operating Leases** The total future minimum annual lease payments under operating leases for premises and equipment in North America are detailed below. Such future minimum annual payments do not include the Company's share of premises business and realty taxes and other operating costs estimated to be \$125,500 per year plus any inflationary adjustments that may be required under the terms of the lease.

2009	\$ 231,271
2010	213,070
2011	206,914
2012	51,728
	<u>\$ 702,983</u>

Premises in the UK are leased on a month-to-month basis. The estimated UK expense for 2009, not included above, is \$94,000.

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**Capital Leases** The total future minimum annual lease payments under capital leases are as follows:

2009	\$ 115,323
2010	73,773
2011	51,634
2012	4,622
	<hr/> 245,352
Less amount representing interest	(20,529)
	<hr/> 224,823
Less current portion	(102,853)
Long-term portion	<hr/> \$ 121,970

Interest is imputed at 9.0%. Interest expense for the twelve months ended November 30, 2007 was \$20,351 (2007 – \$22,987).

**Demand Loan** In August 2008, the Company borrowed \$750,000 and used the proceeds to repay its existing demand loan and replenish cash used in the January 2008 buy-back of shares prior to the consolidation [note 7]. The non-revolving term loan is repayable in equal monthly installments over 42 months.

2009	\$ 214,286
2010	214,286
2011	214,286
2012	53,571
	<hr/> 696,429
Less current portion	(214,286)
Long-term portion	<hr/> \$ 482,143

Interest is at prime plus 2.0%. The term loan and a bank guarantee of capital lease is secured by a \$423,000 GIC [2007 - \$255,000] and the GIC is a restricted investment. The term loan is also secured by first ranking General Security Agreement on all the Company's assets in Canada and the US.

Until such time as all amounts owing to the bank are repaid, the Company shall also maintain a number of standard business operating procedures and certain financial covenants calculated quarterly.

Subsequent to the year end, the financial covenants of the term loan were re-negotiated as a result of the acquisition of dThree, Inc. [note 16]. Management expects to meet these amended covenants over the remaining term of the loan. If the Company is in breach of any of the covenants over the remaining term of the loan, management intends to work with the lenders to obtain a waiver or re-negotiate the terms of the covenants.

Interest expense for the twelve months ended November 30, 2008 was \$26,684 (2007 – \$16,311).

### 14. 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

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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.

### 15. OTHER INCOME

TRIFOX 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 and ongoing semi-annual payments in aggregate totaling US\$520,000. As at November 20, 2008, all amounts due from TRIFOX have been received (November 30, 2007 - \$25,297 remained outstanding). Amounts received during the year were recorded net of collection expenses (21.37% of amounts received).

### 16. SUBSEQUENT EVENT

On December 24, 2008, the Company acquired the assets of dThree, Inc. for total consideration of \$1,888,000 subject to the payment of additional consideration of up to \$750,000 based on achievement of specified revenue targets during the period from closing to January 31, 2010. The consideration, including additional purchase consideration if any, was financed by one lender (Acquisition Debt – "AD"). The AD bears interest at prime plus 3%, requires monthly interest-only payments and the entire AD amount is due in 36 months. If revenue from the former business of dThree during the first 13 months after acquisition is less than \$1,888,000 then \$1,000,000 of the AD due at month 36 is to be repaid on a blended basis over the next twelve months.

The acquired assets of dThree include the IntelliMaxx platform, customer contracts, capital assets, leased assets (including related liabilities) cash and accounts receivable. Operating as a separate division of Angoss, the acquired assets of dThree provide a new and improved suite of marketing analytics solutions to the market.

As required by the terms of the term loan, the Company's bank consented to the transaction and amended certain financial covenants associated with the Demand Loan *[note 13]*.

**Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants  
Royal Trust Tower  
Suite 3000,  
Toronto, Canada  
M5K 1G8

**Corporate Legal Counsel**

Miller Thomson LLP  
Scotia Plaza  
40 King Street West, Suite 5800  
P.O. Box 1011  
Toronto, Canada  
M5H 3S1

**Corporate Banker**

National Bank of Canada  
130 King Street West,  
Suite 820B  
Toronto, Ontario, Canada  
M5X 1E3

**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](http://www.tsx.com)

**Board of Directors**

John Gardner	Chairman
Don Paterson	
Ram Ramkumar	
Cameron L. Fellman	

**Annual and Special Meeting**

Angoss shareholders and other interested parties are invited to attend the Corporation's annual and special meeting

Date: April 23rd 2009  
Time: 4:30pm EST  
Location: #200 - 111 George Street,  
Toronto, Ontario,  
M5A 2N4

**Management Team**

Eric Apps	President
Lon Vining	Vice-President, Chief Financial Officer
Ian Scott	Vice-President, Product and Market Strategy
Dominick Bria	Vice-President, Sales
Tony Canapini	President, Sapien Information Services

Copies of this report and other information are available from:

Angoss Software Corporation  
#200 - 111 George Street,  
Toronto, Ontario,  
M5A 2N4  
[www.angoss.com](http://www.angoss.com)





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**TORONTO OFFICE**

111 George Street, Suite 200  
Toronto, Ontario M5A 2N4  
Canada  
Tel: 416-593-1122  
Fax: 416-593-5077

**New York Office**

230 Park Avenue, 10th Floor  
New York, NY 10169  
USA  
Tel: 212-808-3032  
Fax: 212-808-3072

**UK Office**

Surrey Technology Centre  
40 Occam Road  
The Surrey Research Park  
Guildford, Surrey GU2 7YG  
Tel: +44 (0) 1483-452-303  
Fax: +44 (0) 1483-453-303