



Discover. Predict. Act.™

Second Quarter Interim Results **2009**

Dear Shareholders

Enclosed are Angoss unaudited results for the three and six months ended May 31, 2009.

Second quarter revenues were \$2,244,549, up 19% from 2008 second quarter revenues of \$1,888,807. Billed revenues were \$2.312 million, up 24% from 2008 second quarter billed revenues of \$1.865 million. Initial and renewal subscriptions for software licenses represented 59% of Q2 billed revenues, while Angoss and IntelliMaxx™ “on demand” predictive analytics solution subscriptions contributed 41% to Q2 billed revenues.

Year to date revenues were \$4,265,516, up 11% from 2008 first half revenues of \$3,841,844. Billed revenues were \$3.942 million, up 26% from 2008 first half billed revenues of \$3.139 million. In year to date results, initial and renewal subscriptions for software licenses represented 65% of billed revenues, while Angoss and IntelliMaxx™ on demand analytics solutions represented 35% of billed revenues. The IntelliMaxx™ business also continued operating profitability and generating positive cash flow.

Second quarter results reflect continued growth of our on demand analytics capabilities including our recent IntelliMaxx™ acquisition, as well as solid performance in software licensing and license renewals for Angoss predictive analytics software systems. These growth trends were positive, resulting in achievement of best ever second quarter billed and earned revenues, despite a difficult business environment. We expect conditions to remain challenging for the balance of 2009 as many customers continue to work through a difficult business environment that is impacting on technology budgets, spending priorities, and transaction approvals. Our ability to provide measurable return on software technology investments, as well as our expanding “on demand” solution delivery capabilities, have been the key drivers of growth this year.

Operating expenses were \$1,898,644, up 4% from Q2 2008 operating expenses of \$1,819,076, but down from Q1, 2009 operating expenses. The decrease resulted from company-wide adjustments in compensation and staffing levels, effective March 31, 2009, in anticipation of continued challenging business conditions for the balance of 2009.

Based on the combination of increased revenues and lower operating expenses, the Company’s operating profitability improved significantly in Q2 over Q1, 2009 and prior year results. Operating profit was \$345,905 in Q2, 2009, or \$0.05 per share, up almost 400% from prior year Q2 operating profit of \$69,730. In year to date results, operating profit was \$446,243 (or \$0.06 per share) versus prior year first half operation profit of \$373,458 (or \$0.05 per share).

The Company’s second quarter net loss was \$119,435, or \$0.02 per share, versus a prior year second quarter net loss of \$34,678. In year to date results, the Company’s net loss is \$136,544, versus net income of \$120,936 or \$0.02 per share in first half 2008 results. The Company’s net loss reflects non cash amortization expense associated with the Q1, 2009 IntelliMaxx™ acquisition, as well as the foreign exchange impact of the significant deterioration in the value of the US Dollar in Q2, 2008.

## Second Quarter Highlights

**Continued Client Expansion and Analytics Innovation.** The Company continued to generate business with an exceptional group of existing and new blue chip clients in the second quarter including Equifax, JP Morgan Chase, Bank of America, Russell Investments Group, Rogers Communications, 407 ETR, Mashreq, Ladbrokes, Sirius Radio, Alliance Data Systems, Standard Chartered Bank, United Health Group, Ontario

Lottery & Gaming Corporation, Javelin Direct, and Charming Shoppes. The Company was also selected to provide a prototype / proof of concept solution supporting interactive programming guide analytics to meet the needs of cable operators, service providers and device manufacturers in the converging computing and cable television industries. This solution will be delivered on an on demand hosted basis over the next several quarters, using the Angoss on demand predictive analytics infrastructure platform.

**Marketing Analytics: IntelliMaxx™ On Demand Email, Web and Mobile Marketing Solutions.** The Company's integration of the IntelliMaxx™ business is proceeding as scheduled. During the second quarter, the Company relaunched the IntelliMaxx™ website to reflect the new positioning of the business, and finalized its product roadmap and development plans for the integrated suite of IntelliMaxx™ offerings. The Company is currently completing integration of a refactored and modularized IntelliMaxx™ marketing suite with the Angoss on demand analytics engine and analytic data mart, having secured preliminary data assets from third parties to prototype the build out of the IntelliMaxx™ proprietary data asset and data access toolkit for market planning and customer targeting. Angoss will also be adding enhanced email and mobile capabilities to extend IntelliMaxx™ integrated marketing and measurement capabilities to mobile devices. These initiatives are expected to continue through the balance of fiscal 2009.

**Sales Analytics: KnowledgeSEEKER® for Salesforce Selected to Drive Sales Force Optimization for Major Fund and Wealth Management Client.** Angoss has been selected as the preferred vendor for delivering advanced analytics to support implementation of a major fund industry client with almost \$200 billion in assets under management deploying its CRM solution. Angoss is proposing to deliver its FundGUARD™ solution on a fully integrated basis with the client's Salesforce.com deployment, leveraging the Angoss KnowledgeSEEKER® for Salesforce.com predictive analytics plug in for the Salesforce.com platform. The Company currently expects to complete negotiations and commence implementation during the second half of 2009.

**Risk Analytics: KnowledgeSTUDIO® 7 Released to Customers.** Angoss released KnowledgeSTUDIO® Version 7 as scheduled, incorporating several new features and capabilities, including Linux platform support, "in database mining" extensions for Microsoft® SQL Server, Oracle, and Netezza, and enhanced data preparation and optimization tools for marketing, sales and risk analytics applications. Angoss financial services clients have reported significant business value benefits from their use of Angoss, compared with traditional, proprietary statistical toolkits, with analyst productivity gains of up to 80% in the design, development and delivery of predictive models and strategies to support marketing, sales and credit lifecycle risk and decision management needs, compared with traditional statistical tools and methods.

**Stock Option Disclosure.** In accordance with the requirements of The Toronto Venture Exchange, and as previously disclosed in the Company's 2009 Management Information Circular the Company has granted 22,500 options to acquire a total of 22,500 common shares to directors other than management representatives at an exercise price of \$0.35 per share.

Regards



Eric Apps  
President

# Management Discussion and Analysis of Operating Results and Financial Position

*This Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Angoss Software Corporation ("Angoss" or the "Company") has been prepared as at June 30, 2009 and should be read in conjunction with the unaudited consolidated financial statements and notes for the three months ended May 31, 2009 and should be read in conjunction with the audited consolidated financial statements and notes, and Management's Discussion and Analysis contained in the Company's Annual Report for the fiscal year ended November 30, 2008 ("AFS").*

*The financial data contained in this 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.

In December, 2008, the Company acquired the property and assets of dThree Inc and dThree Management Inc. (collectively "dThree"). dThree is 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

# Management Discussion and Analysis of Operating Results and Financial Position

methodology which ensures rapid return on investment, effective knowledge transfer, and rapid solution availability using both technology licensing and subscription service delivery models.

## Overall Performance

Billed revenue during the second quarter 2009 was encouraging in a challenging business environment. Recent events have reinforced the fundamental importance of the more advanced, easy-to-use analytics capabilities offered by companies like Angoss to their core business processes - so they can predict future trends with more confidence, earlier. Near term, growth in billed revenue will continue to be challenging in the current environment.

As a result of the business environment and its challenges, the Company also focused on cost reduction. During the second quarter, compensation for staff was reduced and the size of its US based sales team reduced through attrition. The Company expects that compensation reductions will remain in place until the end of 2009. The Company does not expect to replace members of the US team in 2009. The US team continues to focus on software sales and solution delivery within existing customers. As a sales office, the UK remains profitable and focused on software sales.

The Company's integration of the IntelliMaxx™ business is proceeding as scheduled. During the second quarter, the Company re-launched the IntelliMaxx™ website to reflect the new positioning of the business, and finalized its product roadmap and development plans for the integrated suite of IntelliMaxx™ offerings.

## 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. The Company continues to actively explore various opportunities to grow software and solution delivery revenue through acquisition. Such acquisitions (if any) will be dependent upon financing on acceptable terms.

Angoss has serviced North America from its head offices in Toronto, while servicing European customers from its European headquarters in Guildford, UK. 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, measureable value to business organizations that do not have ready or cost-effective access to advanced analytics, business intelligence or similar capabilities.

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, as well as the adverse swing in foreign exchange which has increased the costs of US based resources by approximately 12%. As a result of these developments and attrition, the Company does not expect to replace the US sales team. The US team is focused on expanding existing client software installations and the delivery of its solutions to the market.

In December 2008, the Company announced the purchase of the assets of dThree, Inc. and dThree Management Inc. Integration of the Intellimaxx™ business is proceeding as scheduled and the operations are conducted through the wholly owned subsidiary, Sapien Information Services Corporation ("Sapien"). Acquisition and related information are more fully detailed under "Acquisition of Assets". The Company is currently completing integration of a re-factored and modularized IntelliMaxx™ marketing suite with the Angoss on demand analytics engine and analytic data mart, having secured preliminary data assets from third parties to prototype the build out of the IntelliMaxx™ proprietary data asset and data access toolkit for market planning and customer targeting. Angoss will also be adding enhanced email and mobile capabilities to extend IntelliMaxx™ integrated marketing and measurement capabilities to mobile devices. These initiatives are expected to continue through the balance of fiscal 2009.

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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, and 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.

Stated in Canadian dollars	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue	<u>\$ 7,541,523</u>	<u>\$ 7,361,476</u>	<u>\$ 6,824,114</u>
Sales and Marketing, General and Administration and Research and Development expenses	<u>(7,176,538)</u>	<u>(6,503,012)</u>	<u>(6,143,622)</u>
Income before the following	<u>364,985</u>	<u>858,464</u>	<u>680,492</u>
Foreign exchange losses, Financing expenses, Amortization, Stock option expense and Other income	<u>(30,730)</u>	<u>(787,118)</u>	<u>(369,613)</u>
Net income (loss) for the year	<u>\$ 334,255</u>	<u>\$ 71,346</u>	<u>\$ 310,879</u>
Basic and diluted profit (loss) per share	<u>\$0.05</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Total assets	<u>\$5,020,043</u>	<u>\$ 5,690,922</u>	<u>\$ 4,812,545</u>
Total long term financial liabilities	<u>\$ 699,065</u>	<u>\$ 492,762</u>	<u>\$557,522</u>
Cash dividends declared per Preferred share	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.07</u>

### 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 and Sapient / Intellimaxx™ 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 integrated into operations, 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

## Management Discussion and Analysis of Operating Results and Financial Position

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.

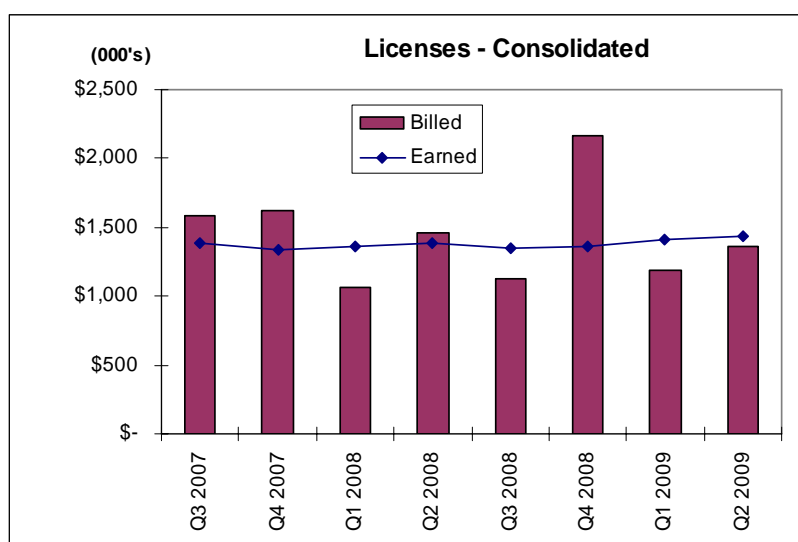
The Company currently operates primarily in two geographic markets - North America and Europe. During the second quarter of 2009, 90.7% of earned revenue was generated from customers in North America (2008 – 84.1%) and 9.3% in Europe (2008 – 15.9%). The increase in the share of 2009 earned revenues attributable to North America reflects the impact of Sapien on earned revenues combined with year over year changes in exchange rates – 10% decline in British Pounds to Canadian Dollars and a 19% increase in US to CDN dollars. In Q2, Sapien earned revenues accounted for 23.2% of revenues.

During the first six months of 2009, 90.2% of earned revenue was generated from customers in North America (2008 – 84.9%) and 9.8% in Europe (2008 – 15.1%). The increase in the share of 2009 earned revenues attributable to North America reflects the impact of Sapien on earned revenues combined with year over year changes in exchange rates – 10% decline in British Pounds to Canadian Dollars and a 21% increase in US to CDN dollars. Sapien earned revenues accounted for 19.3% of YTD revenues.

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	Three months ended May 31,			Six months ended May 31,		
	2009	2008	% change	2009	2008	% change
Licenses	\$ 1,436,768	\$ 1,384,079	3.8%	\$ 2,845,181	\$ 2,750,759	3.4%
Professional services	807,313	492,510	63.9	1,418,515	1,059,898	33.8
Angoss direct revenue	2,244,081	1,876,589	19.6	4,263,696	3,810,657	11.9
Interest	468	12,218	(96.2)	1,820	31,187	(94.2)
Total revenue	<u>\$ 2,244,549</u>	<u>\$ 1,888,807</u>	<u>18.8%</u>	<u>\$ 4,265,516</u>	<u>\$ 3,841,844</u>	<u>11.0%</u>

### License Revenue



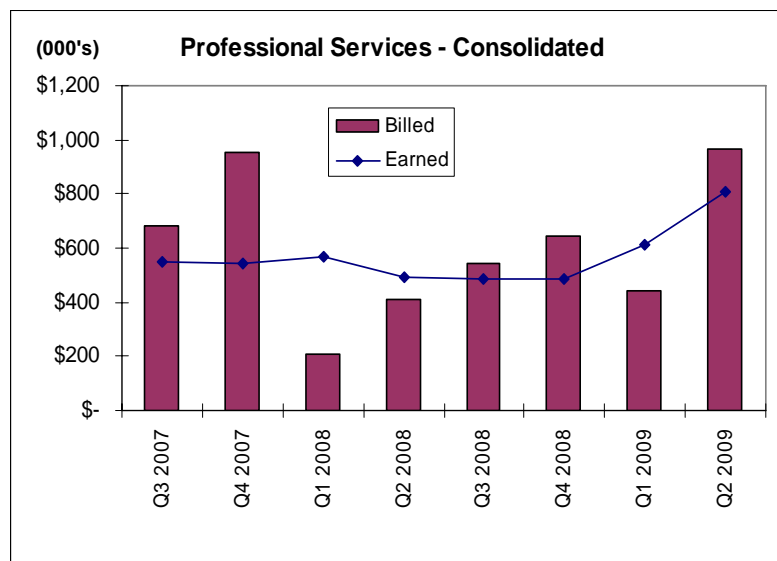
The amount of earned license revenue in any quarter is a direct function of license revenue billed in the current and three preceding quarters as such billings are recognized over the one year license term. As a result, growth rates are therefore a blended mix of billings in prior periods.

During the three months ended May 31, 2009, an 11.5% increase in earned North America license revenue was offset by a 26.4% decrease in earned European license revenue. As a result, total earned license revenue increased 3.8% over the same period in 2008 (YTD – 3.4%).

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During the six months ended May 31, 2009, a 10.7% increase in earned North America license revenue was offset by a 25.9% decrease in earned European license revenue. As a result, earned license revenue increased 3.4% over the same period in 2008.

### Professional Services



Earned professional service revenues increased 63.9% during the three months ended May 31, 2009 over the same period in 2008. This increase was driven by Sapien operations which accounted for 64.4% of earned services in Q2.

Earned professional service revenues increased 33.8% during the six months ended May 31, 2009 over the same period in 2008. This increase was driven by Sapien operations which accounted for 57.9% of earned YTD services.

Professional services, other than Sapien, declined 40% and 43% respectively during the three and six months ended May 31, 2009. While earned services declined, billings and deferred revenues increased. 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

	Three months ended May 31,			Six months ended May 31,		
	2009	2008	% change	2009	2008	% change
Initial software	\$ 496,616	\$ 854,689	(41.9)%	\$ 1,171,663	\$ 1,544,601	(24.1)%
Renewal software	860,311	601,351	43.1	1,372,988	978,286	40.3
<b>License Revenue</b>	<b>1,356,927</b>	<b>1,456,040</b>	<b>(6.8)</b>	<b>2,544,651</b>	<b>2,522,887</b>	<b>0.9</b>
<b>Professional Services</b>	<b>964,931</b>	<b>409,837</b>	<b>135.4</b>	<b>1,397,097</b>	<b>616,515</b>	<b>126.6</b>
<b>Total billed revenue</b>	<b>\$ 2,321,858</b>	<b>\$ 1,865,877</b>	<b>24.4%</b>	<b>\$ 3,941,748</b>	<b>\$ 3,139,402</b>	<b>25.6%</b>

The following discussion and analysis of revenue 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 under "Foreign Exchange".

On a consolidated basis, total billed revenue in local currencies during the three months ended May 31, 2009 increased by 16.4% (YTD – 17.9%) over the same period in 2008. Excluding Sapien operations, billed revenue in the second quarter declined 12.9% (YTD – 10.7%).

In North America, initial software license billings in the second quarter declined 48.4% over the same period in 2008 (YTD – 30.3%). In Europe, initial software license billings declined 46.2% in the second quarter (YTD – 44.6%). The decrease in Europe resulted from longer sales cycles, more detailed closing requirements instituted by clients and

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deteriorating market conditions. 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.

Renewal license billings are cyclical and generally follow a billing pattern that parallels the prior year's initial and renewal software license billings. During the three months ended May 31, 2009, North American renewal billings grew 31.1% (YTD – 26.6%). The increase was primarily related to re-activation of licenses previously expired and prepayment of future quarterly billings as clients renewed licenses with available budget dollars. In Europe, second quarter renewal billings declined 2.8% (YTD – 2.5%) reflecting economic conditions. Renewal billings are otherwise expected to continue to grow in parallel with the renewal of initial licenses and the continued renewal of existing licenses.

During the three months ended May 31, 2009, a 124.8% increase (YTD – 122.0% increase) in professional service billings reflects the impact of Sapien operations in 2009. During the three months ended May 31, 2009, professional services billings (ex Sapien) declined 2.5% (YTD – 15.1% decline). Solution billings are defined by the contract and earned over the implementation timelines and will fluctuate from period to period.

### 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. During the three months ended May 31, 2009, such operating expenses increased 4.4% over 2008 levels (YTD – 10.1% increase).

	Three months ended May 31, 2009			Six months ended May 31, 2008		
	2009	2008	Change	2009	2008	Change
S&M	\$ 1,100,344	\$ 1,109,988	(0.9)%	\$ 2,340,616	\$ 2,173,510	7.7%
G&A	409,894	423,641	(3.2)%	817,944	799,146	2.4%
R&D	388,406	285,448	36.1%	660,713	495,730	33.3%
	<b>\$ 1,898,644</b>	<b>\$ 1,819,077</b>	<b>4.4%</b>	<b>\$ 3,819,273</b>	<b>\$ 3,468,386</b>	<b>10.1%</b>

### Analysis of Operating Costs and Expenses

	Three months ended May 31, 2009			Three months ended May 31, 2008			Year over year	
	North America	UK	Total	North America	UK	Total	\$	%
Compensation								
S&M	\$ 785,133	\$ 103,462	\$ 888,595	\$ 729,266	\$ 131,715	\$ 860,981	\$ 27,614	3.2%
G&A	127,116	-	127,116	146,720	-	146,720	(19,604)	(13.4)%
R&D	362,093	-	362,093	228,410	-	228,410	133,683	58.5%
	<b>\$ 1,274,342</b>	<b>103,462</b>	<b>1,377,804</b>	<b>1,104,396</b>	<b>131,715</b>	<b>1,236,111</b>	<b>141,693</b>	<b>11.5%</b>
% of total	<b>72.8%</b>	<b>69.5%</b>	<b>72.6%</b>	<b>67.2%</b>	<b>75.2%</b>	<b>68.0%</b>		
Other								
S&M	196,522	15,227	211,749	240,963	8,044	249,007	(37,258)	(15.0)%
G&A	252,582	30,196	282,778	241,566	35,355	276,921	5,857	2.1%
R&D	26,313	-	26,313	57,038	-	57,038	(30,725)	(53.9)%
	<b>475,417</b>	<b>45,423</b>	<b>520,840</b>	<b>539,567</b>	<b>43,399</b>	<b>582,966</b>	<b>(62,126)</b>	<b>(10.7)%</b>
% of total	<b>27.2%</b>	<b>30.5%</b>	<b>27.4%</b>	<b>32.8%</b>	<b>24.8%</b>	<b>32.0%</b>		
Total	<b>\$ 1,749,759</b>	<b>\$ 148,885</b>	<b>\$ 1,898,644</b>	<b>\$ 1,643,963</b>	<b>\$ 175,114</b>	<b>\$ 1,819,077</b>	<b>\$ 79,567</b>	<b>4.4%</b>

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## Analysis of Operating Costs and Expenses

	Six months ended May 31, 2009			Six months ended May 31, 2008			Year over year	
	North America	UK	Total	North America	UK	Total	\$	%
<b>Compensation</b>								
S&M	\$ 1,763,304	\$ 208,326	\$ 1,971,630	\$ 1,500,160	\$ 274,939	\$ 1,775,099	\$ 196,531	11.1%
G&A	265,833	-	265,833	281,993	-	281,993	(16,160)	(5.7)%
R&D	607,505	-	607,505	386,680	-	386,680	220,825	57.1%
	<b>2,636,642</b>	<b>208,326</b>	<b>2,844,968</b>	<b>2,168,833</b>	<b>274,939</b>	<b>2,443,772</b>	<b>401,196</b>	<b>16.4%</b>
% of total	74.9%	69.8%	74.5%	69.8%	75.8%	70.5%		
<b>Other</b>								
S&M	345,218	23,768	368,986	381,533	16,878	398,411	(29,425)	(7.4)%
G&A	485,878	66,233	552,111	446,365	70,788	517,153	34,958	6.8%
R&D	53,208	-	53,208	109,050	-	109,050	(55,842)	(51.2)%
	<b>884,304</b>	<b>90,001</b>	<b>974,305</b>	<b>936,948</b>	<b>87,666</b>	<b>1,024,614</b>	<b>(50,309)</b>	<b>(4.9)%</b>
% of total	25.1%	30.2%	25.5%	30.2%	24.2%	29.5%		
<b>Total</b>	<b>\$ 3,520,946</b>	<b>\$ 298,327</b>	<b>\$ 3,819,273</b>	<b>\$ 3,105,781</b>	<b>\$ 362,605</b>	<b>\$ 3,468,386</b>	<b>\$ 350,887</b>	<b>10.1%</b>

### Compensation

During the three months ended May 31, 2009, compensation accounted for 72.6% (2008 – 68.0%) of operating expenses with an increase of 11.5% over the same period in 2008. YTD, compensation accounted for 74.5% (2008 – 70.5%) of operating expenses with an increase of 16.4% over 2008.

In North America, Q2 compensation reductions initiated mid-way through Q2 were offset by the compensation costs associated with Sapien. Base compensation reductions are expected to remain in place for the balance of 2009. In Q2, Sapien compensation costs were 28.8% and 27.9% of S&M and R&D compensation costs respectively. Sapien compensation expenses are expected to remain unchanged for the balance of 2009. Year over year increases in the headcount of non-Sapien R&D personnel accounted for the balance of R&D compensation increases. The US sales team in the northeast has been reduced to 2 persons as a result of disappointing initial product sales and stronger Canadian dollar which made operations in the US more expensive than maintaining a team in Canada. The Company does not anticipate any further expansion into the US during 2009. The decrease in 2009 G&A compensation is related base compensation reductions implemented during Q2.

In the UK, lower costs were driven by the decline in the UK British pound and changing staff mix.

In Europe, 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 (2009 – 36.3%; 2008 – 37.8%), sales support programs (2009 – 53.5%; 2008 – 39.4%) and third party consulting fees (2009 – 10.2%; 2008 – 18.6%).

Marketing/demand generation programs consist primarily of tradeshow activities, internet based lead generation (including advertising) and research. In 2009 tradeshow activities decreased as attendance at such shows declined with market conditions. Marketing efforts were focused on industry focused internet based lead generation activities including webinars and email campaigns. In 2009, the Company intends to continue its focus on industry specific marketing campaigns as well as expanding its lead generation programs.

Sales support programs consist of travel to customer sites for requirements gathering, proposal presentations, staff training, and CRM expenses. In 2009, 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 independent consultants and recruiting firms. The

## Management Discussion and Analysis of Operating Results and Financial Position

decrease in 2009 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 70.4% of other G&A expenses (2008 – 74.3%). Sapien other G&A expenses were 6.4% of other G&A expenses. The increase in 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 insurance 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 / recruiting 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.

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 Q2 2009 comprised amortization of capital assets (2009 - \$ 99,187; 2008 - \$111,918) and the amortization of preferred share financing fees, interest accretion and dividends (2009 – Nil; 2008 – \$17,328). In the second quarter the Company amortized \$50,000 (YTD - \$100,000) of the dThree intangible assets acquired. Amortization of capital assets decreased in 2009 reflecting the age of certain capital assets and software.

### *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 the extent possible, to mitigate the effects of such fluctuations and 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 May 31, 2009 and 2008 the Company had no outstanding foreign exchange forward contracts.

As at May 31, 2009, 68.4% (November 30, 2008 – 81.4%) of cash and cash equivalents and 56.6% (November 30, 2008 – 73.2%) of accounts receivable are denominated in foreign currencies. As at May 31, 2009 – 19.6% (November 30, 2008 – 14.6%) of accounts payable and accrued liabilities are denominated in foreign currencies.

As at May 31, 2009, the \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.0961 and \$1.7711, respectively (November 30, 2008 - \$1.2372 and \$1.8986, respectively). For the three months ended May 31, 2009, the Company's weighted average \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.2035 and \$1.7959, respectively (2008 - \$0.9942 and \$1.9676, 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 May 31, 2009:

## Management Discussion and Analysis of Operating Results and Financial Position

Cash and cash equivalents	\$ (103,032)
Accounts payable and accrued liabilities	16,083
Net foreign exchange loss	<u>\$ (86,949)</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.

### Summary of Quarterly Results

Unaudited	<u>2<sup>nd</sup> Quarter</u>		<u>1<sup>st</sup> Quarter</u>		<u>4<sup>th</sup> Quarter</u>		<u>3<sup>rd</sup> Quarter</u>	
	2009	2008	2009	2008	2008	2007	2008	2007
(000's)								
Revenues	<b>\$2,245</b>	\$1,889	<b>\$2,021</b>	\$1,953	<b>\$1,855</b>	\$1,911	<b>\$1,845</b>	\$1,965
Sales and Marketing, General and Administration and Research and Development expenses	<b>(1,899)</b>	(1,819)	<b>(1,921)</b>	(1,649)	<b>(1,832)</b>	(1,696)	<b>(1,855)</b>	(1,600)
Income (loss) before the following	<b>346</b>	70	<b>100</b>	304	<b>23</b>	215	<b>(10)</b>	365
Foreign exchange gains (losses), Financing expenses, Amortization, Stock option expense and Other income	<b>(465)</b>	(105)	<b>(117)</b>	(148)	<b>178</b>	(228)	<b>22</b>	(203)
Net income (loss)	<b>\$ (119)</b>	\$ (35)	<b>\$ (17)</b>	\$156	<b>\$201</b>	\$ (13)	<b>12</b>	\$ 162
Basic and diluted earnings (loss) per share	<b>\$(0.02)</b>	\$(0.00)	<b>\$(0.00)</b>	\$0.02	<b>\$0.02</b>	\$(0.00)	<b>\$0.00</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. In the second quarter of 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 will grow in 2009 as a result of the dThree acquisition. 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.

## Management Discussion and Analysis of Operating Results and Financial Position

The current portion of contracted obligations comprising of the demand term loan and operating and capital leases totals \$672,000 (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 May 31, 2009, the Company had cash and cash equivalents of \$970,591 (November 30, 2008 - \$1,425,994). As at May 31, 2009, accounts receivable were \$1,983,009 (November 30, 2008 - \$2,035,651). 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. 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. As at May 31, 2009 the bank modified a financial covenant requirement with respect to minimum cash, cash equivalents and restricted investments on hand at May 31, 2009 [see Demand Term Loan below].

In 2009, the decrease in cash balances resulted primarily from cash used to complete the purchase of dThree assets and debt repayments. The purchase of dThree assets was financed by long term debt as detailed under "Acquisition of Assets".

Accounts payable and accrued liabilities as at May 31, 2009 were \$743,125 (November 30, 2008 - \$659,678). The increase is primarily due to increases in trade payables associated with the dThree acquisition and Sapien operations.

As at May 31, 2009, deferred revenue was \$3,626,965 (November 30, 2008 - \$3,942,103). Deferred revenue consists of billed yet unearned initial license sales, renewals and professional services.

<i>Deferred Revenue</i>	May 31, 2009	November 30, 2008
Initial license sales	\$ 1,260,268	\$ 1,563,370
Renewals	1,497,882	1,657,463
Professional services	739,852	654,225
Current	<u>3,498,002</u>	<u>3,875,058</u>
Long-term renewals	128,963	67,045
Total by source	<u>\$ 3,626,965</u>	<u>\$ 3,942,103</u>
North America	\$ 3,303,061	\$ 3,469,627
Europe	323,904	472,476
Total by territory	<u>\$ 3,626,965</u>	<u>\$ 3,942,103</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 acquisition loan, 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.

## Management Discussion and Analysis of Operating Results and Financial Position

At May 31, 2009, the Company had share capital of \$1,813,106 (November 30, 2008 - \$1,813,106), contributed surplus of \$767,489 (November 30, 2008 - \$691,753) and a deficit of \$3,316,508 (November 30, 2008 - \$3,179,964).

In December 2008, the fair value of the expired warrants, \$49,400, was transferred to contributed surplus on expiry of the warrants.

### ***Commitments and Obligations***

Operating and capital lease commitments and term loan repayments (collectively "commitments") are outlined in Note 13 to the 2008 AFS. In December 2008, the Company acquired the assets of dThree and financed the purchase with long term debt as detailed under "Acquisition of Assets". The Company has made payments as required under the terms of its commitments. During the three months ended May 31, 2009, interest expense on the commitments was \$37,005 (2008 - \$9,604). During the six months ended May 31, 2009, interest expense on the commitments was \$75,771 (2008 - \$20,662).

### ***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 2009 buy-back of shares prior to the consolidation [note 7]. The non-revolving term loan is repayable in equal monthly installments over 42 months.

Interest is at prime plus 2.0%. The term loan and a bank guarantee of capital lease is secured by a \$423,000 GIC [2008 - \$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.

In December 2009, the financial covenants of the term loan were re-negotiated as a result of the acquisition of dThree, Inc. [note 5]. One such covenant required that the Company maintain, at each fiscal quarter end, minimum cash, cash equivalents and restricted investments of \$1,500,000. As at May 31 the Company did not have such balances and the bank modified this covenant requirement as at May 31, 2009 to be equal to the amount of cash, cash equivalents and restricted investments on hand at May 31, 2009. Management expects that it may be required to amend the \$1,500,000 requirement from time to time 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.

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

As at May 31, 2009 and November 30, 2008, the Company had not entered into any off balance sheet arrangements.

### **Transactions with Related Parties**

As at May 31, 2009, annual and meeting fees payable to directors acting in their capacity as directors were \$16,264 (November 30, 2008 - \$16,258). For the three months ended May 31, 2009, directors' fee expense was \$12,501 (2008 - \$12,501). For the six months ended May 31, 2009, directors' fee expense was \$25,002 (2008 - \$25,002).

### **Acquisition of Assets**

On March 20, 2009, the Company completed its acquisition of certain assets and liabilities of dThree, Inc and dThree Management Inc. (collectively "dThree"). The acquired assets of dThree include the IntelliMaxx platform, customer contracts, capital assets, leased assets (including related liabilities), cash and accounts receivable.

## Management Discussion and Analysis of Operating Results and Financial Position

Total consideration for the transaction was CDN\$1,888,000 subject to the payment of an additional consideration of up to \$750,000 based on achievement of specified revenue targets during the period from closing to January 31, 2010. In addition, the Company also incurred transaction costs of \$192,000.

The consideration, including additional purchase consideration if any, was largely financed by one lender who provided \$1,888,000 of debt (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 period from closing to January 31, 2010 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 following twelve months.

The preliminary allocation of the purchase price to the fair value of the assets and liabilities acquired is as follows:

Current assets		\$ 125,000
Furniture and equipment	\$ 50,000	
Computer hardware	100,000	
Assets under capital leases	<u>241,000</u>	391,000
Intellimaxx Software	1,000,000	
Intangibles	<u>845,000</u>	1,845,000
Current deferred revenue		(40,000)
Capital lease obligations		<u>(241,000)</u>
		<u>\$ 2,080,000</u>
Cash consideration		\$ 1,888,000
Transaction costs		<u>192,000</u>
		<u>\$ 2,080,000</u>

This allocation is preliminary and will be finalized upon completing a valuation. Cash of \$10,652 was included in the assets of dThree, resulting in net cash paid of \$2,069,348. This acquisition will be accounted for by the purchase method.

In the second quarter the Company amortized \$50,000 (YTD - \$100,000) of the dThree intangible assets acquired.

### 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.

# Management Discussion and Analysis of Operating Results and Financial Position

## *Financing*

The Company is continually searching for financing to accelerate its growth and provide additional working capital to accelerate organic growth. The Company cannot provide assurance that it will be able to raise financing required to fund growth or working capital should the need arise.

## *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;

## Management Discussion and Analysis of Operating Results and Financial Position

- 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;
- Purchasing schedules, budgets and spending patterns of its customers;
- Changes in foreign currency exchange rates;
- Changes in the relative proportion of software and services revenues;
- Expansion of the analytical solutions business;
- The timing and successful delivery of analytic solution implementations; and
- General economic conditions.

While the Company's integration of the IntelliMaxx™ business, including its clients and software, is proceeding as scheduled, continued revenue growth will require that the Company acquire new customers, complete the integration of a re-factored and modularized IntelliMaxx™ marketing suite with the Angoss on demand analytics engine and analytic data mart and the build out of the IntelliMaxx™ proprietary data asset and data access toolkit for market planning and customer targeting. These initiatives are expected to continue through the balance of fiscal 2009. The Company cannot provide assurance that continued revenue growth will come from these initiatives.

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.

# Management Discussion and Analysis of Operating Results and Financial Position

## Critical Accounting Estimates and Policies

The Company's financial statements for the year ended May 31, 2009 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, 2008 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) during 2007 and 2008:

Section 1400, General Standards of Financial Statement Presentation;  
Section 1535, Section 3031: Inventories; and  
Section 3064: Goodwill and Intangible Assets

Section 1400 requires 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 adoption of Section 1400 has had no impact on the Company's unaudited consolidated interim financial statements.

Section 3031 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 adoption of Section 1535 has had no impact on the Company's unaudited consolidated interim financial statements.

Section 3064 replaced 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 adoption of Section 3064 has had no impact on the Company's unaudited consolidated interim financial statements.

# Management Discussion and Analysis of Operating Results and Financial Position

## Recent Accounting Pronouncements

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP over a transition period which will end in 2011, when IFRS will be fully adopted for profit-oriented publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in fiscal 2012 and is assessing the potential impact of this changeover.

## 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 May 31, 2009, one customer represented 12.6% of the outstanding accounts receivable balance. As at November 30, 2008, two customers represented 35.5% of the outstanding accounts receivable balance. The Company does not expect to have any collection issues.

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

Cash and cash equivalents	\$ 970,591
Restricted investments	391,000
Accounts receivable	1,983,009
	<u>\$ 3,344,600</u>

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

Current	\$ 1,020,294	51.5%
30 – 60	288,778	14.6%
61 – 90	368,595	18.6%
90 +	305,342	15.3%
Total	<u>\$ 1,983,009</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	7,256,612	-
Warrants – 1 warrant is convertible to 1 Common share		20,000	US\$1.65
Options – 1 option is convertible to 1 Common share	1,140,000	430,613	At rates varying from \$0.65 to \$1.15 per option

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

# Management Discussion and Analysis of Operating Results and Financial Position

## 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 unaudited quarterly 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 first quarter 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.

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, part 4, subsection 4.3(3)(a), if an auditor does not perform a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying interim consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# SECOND QUARTER INTERIM REPORT MAY 2009

## Angoss Software Corporation Consolidated Balance Sheets (Unaudited, stated in Canadian dollars)

As at	May 31, 2009 (unaudited)	November 30, 2008 (audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 4]</i>	\$ 970,591	\$ 1,425,994
Restricted investments <i>[note 4]</i>	391,000	423,000
Accounts receivable <i>[note 4]</i>	1,983,009	2,035,651
Prepaid expenses and other assets	464,022	414,201
<b>Total current assets</b>	<b>3,808,622</b>	<b>4,298,846</b>
Capital assets, net <i>[note 8]</i>	1,045,740	721,197
Intangibles, net <i>[note 5]</i>	1,745,000	-
	<b>\$ 6,599,362</b>	<b>\$ 5,020,043</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[notes 4 &amp; 7]</i>	\$ 743,125	\$ 659,678
Current portion of lease inducement	31,199	27,763
Current portion of term loan <i>[note 9]</i>	214,286	214,286
Current portion of capital leases	101,248	102,853
Deferred revenue <i>[note 8]</i>	3,498,002	3,875,058
<b>Total current liabilities</b>	<b>4,587,860</b>	<b>4,879,638</b>
Long-term debt <i>[note 5]</i>	1,888,000	-
Term loan <i>[note 9]</i>	375,000	482,143
Deferred revenue <i>[note 8]</i>	128,963	67,045
Capital leases	277,817	121,970
Lease inducement	77,635	94,952
Preferred shares <i>[notes 6 &amp; 10]</i>	-	-
<b>Total liabilities</b>	<b>7,335,275</b>	<b>5,645,748</b>
<b>Shareholders' equity</b>		
Share capital <i>[note 6]</i>	2,580,595	2,554,259
Deficit <i>[note 6]</i>	(3,316,508)	(3,179,964)
<b>Total shareholders' equity</b>	<b>(735,913)</b>	<b>(625,705)</b>
	<b>\$ 6,599,362</b>	<b>\$ 5,020,043</b>

See accompanying notes

On behalf of the Board:



John Gardner  
Director

Eric Apps  
Director

# SECOND QUARTER INTERIM REPORT MAY 2009

## Angoss Software Corporation

### Consolidated Statements of Income and Deficit and Comprehensive Income

(Unaudited, stated in Canadian dollars)

For the period ended	Three months ended May 31,		YTD - Six Months May 31,	
	2009	2008 <i>[note 10]</i>	2009	2008 <i>[note 10]</i>
<b>Revenue <i>[note 8]</i></b>	<b>2,244,549</b>	1,888,807	<b>\$ 4,265,516</b>	\$ 3,841,844
<b>Operating cost and expenses</b>				
Sales and marketing	1,100,344	1,109,988	2,340,616	2,173,510
General and administration	409,894	423,641	817,944	799,146
Research and development, net	388,406	285,448	660,713	495,730
	<b>1,898,644</b>	1,819,077	<b>3,819,273</b>	3,468,386
<b>Income before the following</b>	<b>345,905</b>	69,730	<b>446,243</b>	373,458
Other income	-	19,895	-	19,895
Amortization of capital assets	(99,187)	(111,918)	(181,843)	(190,047)
Amortization of intangible assets <i>[note 5]</i>	(50,000)	-	(100,000)	-
Interest expense	(37,005)	(9,604)	(75,771)	(20,622)
Preferred share expenses	-	(17,328)	-	(34,683)
Foreign exchange gain (loss)	(255,062)	28,521	(198,837)	(10,919)
Stock based compensation <i>[note 6]</i>	(24,086)	(13,974)	(26,336)	(16,146)
<b>Net (loss) income and comprehensive (loss) income for the period</b>	<b>(119,435)</b>	(34,678)	<b>(136,544)</b>	120,936
Deficit, at beginning of period	(3,197,073)	(14,358,605)	(3,179,964)	(14,514,219)
Deficit reduction <i>[note 6]</i>	-	11,000,000	-	11,000,000
<b>Deficit, end of period</b>	<b>(3,316,508)</b>	(3,393,283)	<b>(3,316,508)</b>	\$ (3,393,283)
<b>Basic and diluted (loss) earnings per share <i>[note 6]</i></b>	<b>\$ (0.02)</b>	\$ (0.00)	<b>\$ (0.02)</b>	\$ 0.02
Weighted average number of shares outstanding <i>[note 6]</i>				
Basic	7,256,612	7,256,612	7,256,612	7,504,877
Diluted	7,256,612	7,256,612	7,256,612	7,528,732

See accompanying notes

# SECOND QUARTER INTERIM REPORT MAY 2009

## Angoss Software Corporation Consolidated Statements of Cash Flows (Unaudited, stated in Canadian dollars)

For the period ended	Three months ended		YTD - Six Months	
	May 31,		May 31,	
	2009	2008	2009	2008
<b>OPERATING ACTIVITIES</b>				
Net (loss) income and comprehensive income for the period	(119,435)	(34,678)	\$ (136,544)	\$ 120,936
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Interest accretion on Preferred shares	-	2,922	-	5,844
Amortization of capital assets	99,187	111,918	181,843	190,047
Amortization of intangible assets	50,000	-	100,000	-
Amortization of deferred financing costs	-	4,288	-	8,576
Stock-based compensation	24,086	13,974	26,336	16,146
	<b>53,838</b>	<b>98,424</b>	<b>171,635</b>	<b>341,549</b>
Changes in non-cash working capital balances				
Decrease in restricted investments	-	-	32,000	15,000
(Increase) decrease in accounts receivable	(440,318)	(711,888)	166,990	492,283
(Increase) decrease in prepaid expenses	(17,485)	(19,363)	(49,821)	110,628
(Decrease) in accounts payable and accrued liabilities	(35,702)	(1,371)	83,447	(200,425)
(Decrease) in dividends payable on Preferred shares	-	55	-	(4,784)
(Decrease) in deferred revenue	55,665	(9,134)	(355,138)	(673,235)
(Decrease) in lease inducement	(6,941)	(6,940)	(13,881)	(13,881)
<b>Cash provided by operating activities</b>	<b>(390,943)</b>	<b>(650,217)</b>	<b>35,232</b>	<b>67,135</b>
Term loan <i>[note 9]</i>				
Purchase of Intellimaxx	-	-	(2,069,348)	-
Acquisition debt	-	-	1,888,000	-
Purchase of capital assets	(22,057)	(86,584)	(115,386)	(171,091)
<b>Cash used in investing activities</b>	<b>(22,057)</b>	<b>(86,584)</b>	<b>(296,734)</b>	<b>(171,091)</b>
Repayable contributions	-	-	-	(10,988)
Shares acquired and cancelled on consolidation	-	-	-	(775,822)
Capital leases - net	(82,273)	26,174	(86,758)	82
Term loan, net of repayments	(53,571)	(15,000)	(107,143)	(30,000)
<b>Cash provided (used) by financing activities</b>	<b>(135,844)</b>	<b>11,174</b>	<b>(193,901)</b>	<b>(816,728)</b>
<b>Net increase (decrease) in cash during the period</b>	<b>(548,844)</b>	<b>(725,627)</b>	<b>(455,403)</b>	<b>(920,684)</b>
Cash and cash equivalents, beginning of period	1,519,435	1,762,050	1,425,994	1,957,107
<b>Cash and cash equivalents, end of period</b>	<b>970,591</b>	<b>1,036,423</b>	<b>\$ 970,591</b>	<b>\$ 1,036,423</b>
<b>Supplemental cash flow information</b>				
Dividends and interest paid	\$ 37,005	\$ 19,667	\$ 75,771	\$ 45,669

See accompanying notes

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

[unaudited, 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 interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles [GAAP]. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with Canadian GAAP have been condensed to include only the notes related to elements which have significantly changed in the interim period. As a result, these interim financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the fiscal year ended November 30, 2008 ("AFS").

These interim financial statements are prepared following accounting policies consistent with the Company's audited annual financial statements and notes thereto for the year ended November 30, 2008. The financial information included herein reflects all adjustments, consisting only of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and six months ended May 31, 2009 are not necessarily indicative of the results to be expected for the full year.

### 3. CHANGES IN ACCOUNTING POLICY

**New Recommendations** Effective December 1, 2008 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) during 2007 and 2008:

Section 1400, General Standards of Financial Statement Presentation, and;  
Section 3064: Goodwill and Intangible Assets

**General Standards of Financial Statement Presentation** The CICA has amended Section 1400, "General Standards of Financial Statement Presentation", which is effective for interim periods beginning on or after December 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. Under this amended section, management must make an assessment of the entity's ability to continue as a going concern. There was no material effect on the Company's unaudited consolidated interim financial statements on the adoption of Section 1400.

**Goodwill and Intangible Assets** CICA 3064 replaces CICA 3062, "Goodwill and Other Intangible assets" and CICA 3450, "Research and Development Costs". This pronouncement establishes standards for recognition, measurement and disclosure of goodwill and intangible assets. The standard was adopted effective December 1, 2008.

The Company evaluated all of the intangible assets it currently has on its books and had determined that all meet the definition of intangible assets stipulated by this new accounting standard. As such, there was no financial statement impact of adopting this standard.

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[unaudited, in Canadian dollars unless otherwise indicated]

**Recent accounting pronouncements issued and not yet applied** In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP over a transition period which will end in 2011, when IFRS will be fully adopted for profit-oriented publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS starting in fiscal 2012 and is assessing the potential impact of this changeover.

### 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 May 31, 2009, one customer represented 12.6% of the outstanding accounts receivable balance. As at November 30, 2008, two customers represented 35.5% of the outstanding accounts receivable balance. The carrying amount of financial assets represents the maximum credit exposure, which at the reporting date was:

Cash and cash equivalents	\$ 970,591
Restricted investments	391,000
Accounts receivable	1,983,009
	<u>\$ 3,344,600</u>

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

Current	\$ 1,020,294	51.5%
30 - 60	288,778	14.6%
61 - 90	368,595	18.6%
90 +	305,342	15.3%
Total	<u>\$ 1,983,009</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 May 31, 2009 and November 30, 2008, the Company had no outstanding foreign exchange forward contracts.

As at May 31, 2009, 68.4% (November 30, 2008, 81.4%) of cash and cash equivalents and 56.6% (November 30, 2008 - 73.2%) of accounts receivable are denominated in foreign currencies. As at May 31, 2009 - 19.6% (November 30, 2008 - 14.6%) of accounts payable and accrued liabilities are denominated in foreign currencies.

As at May 31, 2009, the \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.0961 and

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

[unaudited, in Canadian dollars unless otherwise indicated]

\$1.7711, respectively (November 30, 2008 - \$1.2372 and \$1.8986, respectively). For the three months ended May 31, 2009, the weighted average \$US to \$Canadian and UK to \$Canadian exchange rates were \$1.2035 and \$1.7904, respectively (2008 - \$1.0103 and \$1.9921, 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 May 31, 2009:

Cash and cash equivalents	\$ (103,032)
Accounts payable and accrued liabilities	16,083
Net foreign exchange loss	<u>\$ (86,949)</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 May 31, 2009, the Company had cash and cash equivalents of \$ 970,591 and restricted investments of \$391,000.

The current portion of contracted obligations comprising of the demand term loan and operating and capital leases totals \$672,000 (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. INTELLIMAXX ACQUISITION

On March 20, 2009, the Company completed its acquisition of certain assets and liabilities of dThree, Inc and dThree Management Inc. (collectively "dThree"). The acquired assets of dThree include the IntelliMaxx platform, customer contracts, capital assets, leased assets (including related liabilities), cash and accounts receivable.

Total consideration for the transaction was CDN\$1,888,000 subject to the payment of an additional consideration of up to \$750,000 based on achievement of specified revenue targets during the period from closing to January 31, 2010. In addition, the Company also incurred transaction costs of \$192,000.

The consideration, including additional purchase consideration if any, was largely financed by one lender who provided \$1,888,000 of debt (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 period from closing to January 31, 2010 is less than \$1,888,000, \$1,000,000 of the AD due at month 36 is to be repaid on a blended basis over the next twelve months.

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

[unaudited, in Canadian dollars unless otherwise indicated]

The preliminary allocation of the purchase price to the fair value of the assets and liabilities acquired is as follows:

Current assets		\$ 125,000
Furniture and equipment	\$ 50,000	
Computer hardware	100,000	
Assets under capital leases	241,000	391,000
Intellimaxx Software	1,000,000	
Intangibles	845,000	1,845,000
Current deferred revenue		(40,000)
Capital lease obligations		(241,000)
		<u>\$ 2,080,000</u>
Cash consideration		\$ 1,888,000
Transaction costs		192,000
		<u>\$ 2,080,000</u>

This allocation is preliminary and will be finalized upon completing a valuation. Cash of \$10,652 was included in the assets of dThree, resulting in net cash paid of \$2,069,348. This acquisition will be accounted for by the purchase method.

In the second quarter the Company amortized \$50,000 (YTD - \$100,000) of the dThree intangible assets acquired.

### 6. SHARE CAPITAL

		<u>Shareholders' Equity</u>	
		<u>May 31, 2009</u>	<u>November 30, 2008</u>
<b>Authorized</b>			
Unlimited common shares			
Unlimited Class A Preferred shares, issuable in series			
<b>Issued</b>			
Common Shares	7,256,612 issued	\$ 1,813,106	\$1,813,106
Warrants	76,000 at \$1.25	-	49,400
		<u>1,813,106</u>	<u>1,862,506</u>
Contributed surplus		<u>767,489</u>	<u>691,753</u>
		<u>\$ 2,580,595</u>	<u>\$ 2,554,259</u>

**Issued Common Shares** During the three months ended May 31, 2009, no common shares were issued. During the twelve months ended November 30, 2008, no common shares were issued.

**Warrants** On December 10, 2008, 76,000 warrants expired and were not exercised. The fair value of the expired warrants, \$49,400, 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 May 31, 2009, the software had not been released. No value has been assigned to the warrants.

**Stock-Based Compensation** At May 31, 2009, the Company has two active stock-based compensation plans, which are described in Note 7 to the AFS.

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

[unaudited, in Canadian dollars unless otherwise indicated]

### Plans

A summary of the Company's Stock Option Plan as at May 31, 2009 and November 30, 2008 and changes during the three and twelve months then ended is presented below.

	Six months ended May 31, 2009		Twelve months ended November 30, 2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	436,613	\$ 0.87	514,163	\$ 0.90
Granted	330,000	\$0.32	117,500	0.78
Exercised	-	-	-	-
Cancelled	(65,620)	\$0.90	(195,050)	0.98
<b>Outstanding, end of period</b>	<b>700,993</b>	<b>\$0.61</b>	<b>436,613</b>	<b>\$ 0.87</b>
<b>Options vested, at end of period</b>	<b>509,577</b>	<b>\$1.42</b>	<b>406,697</b>	<b>\$ 1.17</b>

As at May 31, 2009, 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. As at February 29, 2008, non-executive directors of the Company held a total of 85,000 options to acquire 85,000 common shares of the Company at prices ranging from \$0.85 to \$1.15 per share.

The following table summarizes information about the stock options outstanding as at May 31, 2009:

Exercise price	Options outstanding	Remaining Contractual life [months]	Options vested
\$ 0.32	330,000	58	150,000
0.65	76,173	1 to 13	76,173
0.68	17,500	49	8,750
0.80	65,800	8 to 45	63,800
0.95	178,520	20	178,520
1.10	20,500	25	19,834
1.15	12,500	37	12,500
	<b>700,993</b>		<b>509,577</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:

	2009
Number of options granted during the year	330,000
Number of common shares issued per option exercised	1
Weighted average price at time of grant – per share	\$0.32
Weighted average risk-free interest rate	2.92%
Dividend yield	0.0%
Weighted average volatility factors of the expected	

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

[unaudited, in Canadian dollars unless otherwise indicated]

market price of the Company's common shares	79.4%
Weighted average expected life of the options (in years)	3.0

Employee stock option expense for the three months ended May 31, 2009 was \$24,086 (2008 - \$13,974).  
Employee stock option expense for the six months ended May 31, 2009 was \$26,336 (2008 - \$16,146).

**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 May 31, 2009, the legal stated capital of the common shares is \$7,643,710 (November 30, 2008 - \$7,643,710).

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

**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:

	Three Months ended May 31,	
	2009	2008
<b>Basic (loss) earnings per share</b>		
Net (loss)	\$ (119,435)	\$ (34,678)
Weighted average number of common shares outstanding	7,256,612	7,256,612
<b>Basic / diluted (loss) per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.00)</b>

	Six Months ended May 31,	
	2009	2008
<b>Basic (loss) / earnings per share</b>		
Net (loss) / income	\$ (136,544)	\$ 120,936
Weighted average number of common shares outstanding	7,256,612	7,504,877
<b>Basic (loss) / earnings per share</b>	<b>\$ (0.02)</b>	<b>\$ 0.02</b>

<b>Diluted (loss) / earnings per share</b>		
Net (loss) / income	\$ (136,544)	\$ 120,936
Weighted average number of common shares outstanding	7,256,612	7,504,877
Dilutive effect of stock options and warrants	-	23,855
Weighted average number of common shares outstanding	7,256,612	7,528,732
<b>Diluted (loss) / earnings per share</b>	<b>\$ (0.02)</b>	<b>\$ 0.02</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, acquisition debt 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 [note 9].

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

[unaudited, in Canadian dollars unless otherwise indicated]

### 7. RELATED PARTY TRANSACTIONS

As at May 31, 2009, fees payable to directors acting in their capacity as directors were \$16,264 (November 30, 2008 - \$16,258). During the three and six months ended May 31, 2009, directors' fee expense was \$12,501 and \$25,002 respectively (three and six months ended May 31, 2008 - \$12,501 and \$25,002 respectively).

### 8. INFORMATION BY GEOGRAPHIC AREA

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

	Three months ended May 31, 2009		
	North America	Europe	Consolidated
<b>Revenue</b>			
Customers	\$ 2,034,440	\$ 209,641	\$ 2,244,081
Interest income	468	-	468
	<b>\$ 2,034,908</b>	<b>\$ 209,641</b>	<b>\$ 2,244,549</b>
Income (loss) before income taxes	<b>\$ (179,040)</b>	<b>\$ 59,605</b>	<b>\$ (119,435)</b>

	Three months ended May 31, 2008		
	North America	Europe	Consolidated
<b>Revenue</b>			
Customers	\$ 1,579,673	\$ 296,916	\$ 1,876,589
Interest income	8,907	3,311	12,218
	<b>\$ 1,588,580</b>	<b>\$ 300,227</b>	<b>\$ 1,888,807</b>
Net (loss) income for the period	<b>\$ (158,346)</b>	<b>\$ 123,668</b>	<b>\$ (34,678)</b>

	Six months ended May 31, 2009		
	North America	Europe	Consolidated
<b>Revenue</b>			
Customers	\$ 3,847,105	\$ 416,591	\$ 4,263,696
Interest income	1,820		1,820
	<b>\$ 3,848,925</b>	<b>\$ 416,591</b>	<b>\$ 4,265,516</b>
Income (loss) for the period	<b>\$ (252,549)</b>	<b>\$ 116,005</b>	<b>\$ (136,544)</b>

	Six months ended May 31, 2008		
	North America	Europe	Consolidated
<b>Revenue</b>			
Customers	\$ 3,233,020	\$ 577,637	\$ 3,810,657
Interest income	27,548	3,639	31,187
	<b>3,260,568</b>	<b>\$ 581,276</b>	<b>\$ 3,841,844</b>
Income (loss) for the period	<b>\$ (95,007)</b>	<b>\$ 215,943</b>	<b>\$ 120,936</b>

# Angoss Software Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009

[unaudited, in Canadian dollars unless otherwise indicated]

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
May 31, 2009	\$ 3,303,061	\$ 323,904	\$ 3,626,965
November 30, 2008	\$ 3,469,627	\$ 472,476	\$ 3,942,103

<u>Capital assets</u>	North America	Europe	Consolidated
May 31, 2009	\$ 1,022,200	\$ 23,540	\$ 1,045,740
November 30, 2008	\$ 697,657	\$ 23,540	\$ 721,197

### 9. COMMITMENTS

**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. The non-revolving term loan is repayable in equal monthly installments over 42 months.

Interest is at prime plus 2.0%. The term loan and a bank guarantee of capital lease is secured by a \$391,000 GIC [November 30, 2008 - \$423,000] 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.

In December 2009, the financial covenants of the term loan were re-negotiated as a result of the acquisition of dThree, Inc. [note 5]. One such covenant required that the Company maintain, at each fiscal quarter end, minimum cash, cash equivalents and restricted investments of \$1,500,000. As at May 31 the Company did not have such balances and the bank modified this covenant requirement as at May 31, 2009 to be equal to the amount of cash, cash equivalents and restricted investments on hand at May 31, 2009. Management expects that it may be required to amend the \$1,500,000 requirement from time to time 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.

### 10. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 consolidated financial statements.