

Amadeus International Inc.

Consolidated Financial Statements
June 30, 2005 and 2004

Auditors' Report

To the Shareholders of Amadeus International Inc.

We have audited the consolidated balance sheets of Amadeus International Inc. as at June 30, 2005 and 2004 and the consolidated statements of earnings, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
August 26, 2005

Amadeus International Inc.

Consolidated Balance Sheets

As at June 30, 2005 and 2004

	2005 \$	2004 \$
Assets		
Current assets		
Cash	231,134	-
Accounts receivable (notes 5, 10 and 11)	1,408,278	814,015
Net investment in a lease agreement (note 9)	36,061	32,644
Refundable tax credits	514,556	1,697,464
Income taxes recoverable	10,000	2,449
Prepaid expenses	30,877	26,510
	<hr/> 2,230,906	<hr/> 2,573,082
Property, plant and equipment (notes 6 and 11)	216,256	238,995
Intangible assets (note 7)	2,799,443	581,072
Deferred financing expenses (note 8)	98,820	109,227
Net investment in a lease agreement (note 9)	22,755	58,816
Goodwill (note 4)	203,089	-
Future income tax assets (note 16)	736,702	262,445
	<hr/> 6,307,971	<hr/> 3,823,637
Liabilities		
Current liabilities		
Excess of outstanding cheques over bank balance	114,404	-
Bank loan (note 10)	400,000	46,707
Loan secured by the refundable tax credits, reimbursed during the year (note 10)	-	803,000
Accounts payable and accrued liabilities	1,029,927	522,791
Income taxes	89,000	-
Deferred revenues	397,546	386,391
Current portion of long-term debt (note 11)	307,566	159,370
Future income tax liabilities (note 16)	-	76,972
	<hr/> 2,338,443	<hr/> 1,995,231
Deferred revenues	8,576	24,534
Long-term debt (note 11)	1,397,707	142,958
Liability component of convertible debentures (note 12)	1,560,889	1,548,429
Future income tax liabilities (note 16)	736,702	29,321
	<hr/> 6,042,317	<hr/> 3,740,473
Shareholders' Equity		
Share capital, stock options and warrants (note 13)	4,187,651	1,813,059
Other equity components (note 14)	994,460	380,924
Contributed surplus	135,011	135,011
Deficit	<hr/> (5,051,468)	<hr/> (2,245,830)
	<hr/> 265,654	<hr/> 83,164
	<hr/> 6,307,971	<hr/> 3,823,637
Commitments (note 15)		
Going concern (note 1)		

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

(2)

(Signed) BENOÎT CÔTE Director

(Signed) ANDRÉ MONETTE Director

Amadeus International Inc.
Consolidated Statements of Deficit
For the years ended June 30, 2005 and 2004

	2005 \$	2004 \$
Balance – Beginning of year	2,245,830	1,137,430
Net loss for the year	<u>2,805,638</u>	<u>1,108,400</u>
Balance – End of year	<u>5,051,468</u>	<u>2,245,830</u>

The accompanying notes are an integral part of these consolidated financial statements.

Amadeus International Inc.
Consolidated Statements of Earnings
For the years ended June 30, 2005 and 2004

	2005 \$	2004 \$
Revenues	1,784,234	2,115,074
Cost of revenues	<u>536,472</u>	<u>320,275</u>
Gross margin	<u>1,247,762</u>	<u>1,794,799</u>
Operating expenses		
Research and development (note 7)	1,071,999	821,949
Selling	1,523,463	1,026,600
General and administrative	857,152	676,112
Depreciation and amortization (note 19)	<u>290,965</u>	<u>146,670</u>
	<u>3,743,579</u>	<u>2,671,331</u>
Loss before other expenses	<u>(2,495,817)</u>	<u>(876,532)</u>
Other expenses		
Accretion on convertible debentures	12,460	4,982
Interest, net (note 19)	251,751	234,944
Loss on writedown of marketable security	<u>-</u>	<u>1,500</u>
	<u>264,211</u>	<u>241,426</u>
Loss before income taxes	<u>(2,760,028)</u>	<u>(1,117,958)</u>
Income tax expense (recovery) (note 16)		
Current income taxes	45,610	2,152
Future income taxes	<u>-</u>	<u>(11,710)</u>
	<u>45,610</u>	<u>(9,558)</u>
Net loss for the year (note 19)	<u>(2,805,638)</u>	<u>(1,108,400)</u>
Basic and diluted net loss per share (note 21)	<u>(0.11)</u>	<u>(0.06)</u>
Going concern (note 1)		

The accompanying notes are an integral part of these consolidated financial statements.

Amadeus International Inc.
Consolidated Statements of Cash Flows
For the years ended June 30, 2005 and 2004

	2005 \$	2004 \$
Cash flows from operating activities		
Net loss for the year	(2,805,638)	(1,108,400)
Items not affecting cash		
Receipts (income) derived from the net investment in a lease agreement	32,644	(53,460)
Depreciation and amortization	290,965	146,670
Accretion on convertible debentures	12,460	4,982
Stock-based compensation	23,767	-
Future income taxes	-	(11,710)
Loss on disposal of property, plant and equipment	-	3,062
Loss on writedown of a marketable security	-	1,500
	<u>(2,445,802)</u>	<u>(1,017,356)</u>
Net change in non-cash operating working capital items (note 20a)	<u>1,187,059</u>	<u>250,563</u>
	<u>(1,258,743)</u>	<u>(766,793)</u>
Cash flows from financing activities		
Increase in bank loan	353,293	45,749
Variation in loan secured by tax credits	(803,000)	577,532
Advance from A77 Capital Inc.	250,000	-
Long-term debt contracted (note 20b)	1,250,000	45,992
Payments on long-term debt	(161,188)	(171,140)
Financing expenses	-	(1,897)
Issuance of common shares and warrants	1,466,050	-
Share issue expenses	(81,419)	-
Amalgamation (note 3)	131,804	-
	<u>2,405,540</u>	<u>496,236</u>
Cash flows from investing activities		
Additions to property, plant and equipment (note 20b)	(16,093)	(52,242)
Proceeds from disposal of property, plant and equipment (note 20b)	-	2,925
Acquisition of intangible assets, net of tax credits cashed (note 20b)	(94,698)	(420,979)
Business combination, net of cash and cash equivalents (note 4)	(919,276)	-
	<u>(1,030,067)</u>	<u>(470,296)</u>
Net change in cash	116,730	(740,853)
Cash – Beginning of year	-	740,853
Net cash – End of year (note 20c)	<u>116,730</u>	<u>-</u>
Additional information (note 20d)		

The accompanying notes are an integral part of these consolidated financial statements.

Amadeus International Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

1 Statutes, nature of activities and going concern

The company has been incorporated under Part 1A of the Québec Companies Act. It is specializing in the development and marketing of compliance process control solutions that help companies to improve their business performance by automating management of their processes and management systems.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the company will be able to realize its assets and discharge its liabilities in the normal course of business. The company's successful completion of its commercialization program and its transition, ultimately, to the attainment of profitable operations is dependent upon the company's ability to obtain adequate sources of financing until the company generates positive cash flow from operations. Management continues to review the company's revenue generating activities and its expenditure levels to increase net cash flows. In addition, management is in the process of reviewing various financing alternatives and is seeking additional financing. Management believes that these actions, in conjunction with the expected sales growth and exploitation of existing technologies in fiscal 2006, make the use of the going concern basis appropriate. However, it is not possible at this time to predict the outcome of these matters and there is no assurance that management will be successful in these actions. If the going concern basis is not appropriate, adjustments might be necessary in the carrying amounts and/or classification of assets, liabilities and expenses in these financial statements. These adjustments could be material.

2 Summary of significant accounting policies

Consolidated financial statements

These consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiaries, Amadeus Recherche et Développement inc., EURL Amadeus CSI France, Amadeus Solution Inc. and M3K Solutions Inc. The latter subsidiary was incorporated during the current year (note 4).

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Foreign currency translation

For foreign currency transactions and foreign subsidiaries which are all considered financially and operationally integrated, the temporal method of translation of foreign currencies has been used. Monetary items are translated at the rate in effect at the balance sheet date, non-monetary items are translated at their historical rate and revenues and expenses are translated at the rate in effect at the transaction date or at the average exchange rates during the year as appropriate. Translation gains and losses are reflected in the statements of earnings.

Amadeus International Inc.
Notes to Consolidated Financial Statements
June 30, 2005 and 2004

Government assistance

Government assistance related to assets is recorded as a reduction of these assets. Government assistance related to operating expenses is recorded as a reduction of these expenses.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost. They are depreciated over their estimated useful lives using the following methods, period and rates:

	Methods	Period and rates
Office furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30%
Leasehold improvements	Straight-line	5 years

Intangible assets and amortization

Intangible assets are recorded at cost. They are amortized over their estimated useful lives using the following methods, periods and rate:

	Methods	Periods and rate
Software	Declining balance	30%
Intellectual property	Straight-line	3 years
Technologies	Straight-line	4 years
Backlog	Straight-line	2 years
Customer relationships	Sum-of-the-years-digits	10 years
Development expenses	Straight-line	4 years
Incorporation expenses	Straight-line	5 years

All development expenses, which do not meet generally accepted criteria for deferral, and research, are expensed as incurred, net of related government assistance and tax credits. Development expenses which meet generally accepted criteria for deferral are capitalized, net of related government assistance and tax credits, and are amortized against earnings over the estimated period of benefit, being four years.

Deferred financing expenses

Financing expenses are recorded at cost and are amortized using the straight-line method over the term of the loans.

Amadeus International Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

Goodwill

Goodwill represents the excess of the purchase price of the acquired business over the estimated fair value of net identifiable assets acquired. Goodwill is not amortized. However, it must be tested for impairment on an annual basis, or more frequently if events or circumstances occur that more likely than not would reduce the fair value of a reporting unit below its carrying value. Goodwill impairment can exist when the carrying value of the reporting unit exceeds its fair value. The fair value of a reporting unit is determined based on the discounted future cash flows. The amount of impairment loss, if any, represents the excess of the carrying value of goodwill over its fair value. This loss will be charged to earnings in the period in which it is incurred.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of an asset is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value of the asset over its fair value.

Net investment in a lease agreement

Financing income from the sales-type lease is recognized in earnings based on a formula showing a constant rate of return of the remaining investment under the lease agreement. For revenue recognition purposes, the investment in the lease agreement consists of net minimum instalments required under the lease agreement and unearned financing income.

Revenue recognition

Revenues from arrangements involving licenses, maintenance (including post-contract customer support and updates) and other related services are recognized in accordance with Emerging Issues Committee (EIC) abstracts 141 to 143 dealing with revenue recognition. Revenues are allocated to the various elements based on supplier-specific objective evidence of fair value of each of the elements. Revenues from software licenses are recognized when persuasive evidence of an arrangement exists, the software product has been delivered, there are no uncertainties surrounding product acceptance, the related fees are fixed or determinable, and collection is reasonably assured. Revenues from maintenance elements are recognized ratably over the related support period. Revenues from other related services are recognized as the services are performed.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income taxes are determined based on temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates and laws expected to be in effect for the year in which the differences are expected to be recovered or settled.

Amadeus International Inc.

Notes to Consolidated Financial Statements

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

Tax credits

Amounts accounted for as research and development tax credits and as tax credits related to the Centre national des nouvelles technologies de Québec (CNNTQ) and to New Economy Centres (CNE) are subject to the annual eligibility acceptance regarding the business and its employees and the review of income tax returns by tax authorities. In the event of any variances between the amounts claimed by the company and those granted by tax authorities, the related gain or loss will be accounted for in the year in which these variances are recognized.

Issue expenses for shareholders' equity components

Issue expenses for shareholders' equity components have been applied against the proceeds from the issuance.

Earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential participating shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average stock market price of the participating shares during the year.

Stock-based compensation and other stock-based payments

The company uses the fair value based approach of accounting for stock-based payments to directors and for stock options granted to its employees. Any consideration paid by plan participants on the exercise of stock options or the purchase of shares is credited to stated capital together with any related stock-based compensation cost. Stock-based compensation costs are recognized over the vesting period of the options. The contributed surplus component of the stock-based compensation is transferred to share capital upon the issuance of common shares. Concerning the options granted before July 1, 2002, the company has elected not to account for stock-based compensation costs arising from awards granted to employees. However, the company provided the required pro-forma disclosures (note 13).

Comparative figures

Certain comparative figures have been reclassified to conform with the current year presentation.

Amadeus International Inc.
Notes to Consolidated Financial Statements
June 30, 2005 and 2004

3 Amalgamation

On December 23, 2004, Amadeus International Inc., A77 Capital Inc. and 9106-5086 Québec Inc. have amalgamated under the Québec Companies Act so as to form Amadeus International Inc. ("Amadeus"). Upon the amalgamation, the security holders of Amadeus, including 9106-5086 Québec Inc., received an aggregate number of 19,237,253 common shares and the security holders of A77 Capital Inc. received 7,050,000 common shares of Amadeus. The amalgamation has constituted the qualifying transaction for A77 Capital Inc. and Amadeus within the meaning of Policy 2.4 of the TSX Venture Exchange. Considering the aforementioned exchange of shares, the control of A77 Capital Inc. has been transferred to the shareholders of Amadeus. Further to this amalgamation, Amadeus is deemed to have acquired the control of A77 Capital Inc.'s assets and business in consideration of the issuance of shares. Accordingly, the financial statements of the resulting company are the continuation of those of Amadeus.

Upon completion of the amalgamation, the fair value of the net assets acquired from A77 Capital Inc. and 9106-5086 Québec Inc. is detailed as follows:

	A77 Capital Inc. \$	9106-5086 Québec Inc. \$	Total \$
Cash and cash equivalents	131,816	(12)	131,804
Advance to Amadeus International Inc.	250,000	-	250,000
Advance to an employee of Amadeus International Inc.	50,000	-	50,000
Accounts receivable	69,893	-	69,893
Current liabilities	(9,280)	(750)	(10,030)
Net assets acquired	<u>492,429</u>	<u>(762)</u>	<u>491,667</u>

The consideration issued as part of that business combination is allocated as follows:

	\$
Consideration issued	
7,050,000 shares (note 13)	63,713
1,205,000 stock options at fair value (note 13b)	<u>427,954</u>
	<u>491,667</u>

Amadeus International Inc.

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

4 Business combination

On June 1, 2005, the company acquired all outstanding shares of M3K Solutions Inc., a business that helps companies in each stage of their compliance initiatives to corporate governance rules and standards, especially to the Sarbanes-Oxley Act (United States) and Bill 198 (Province of Ontario), by providing software and services. Pursuant to the agreement, the company paid a cash amount of \$1,250,000 and issued 5,428,571 common shares. A balance of purchase price of \$250,000 was paid in August 2005.

The shares issued are subject to an escrow agreement over a 24-month period from the closing date, being June 1, 2005; 25% of the escrowed shares will be released from escrow every six months from the closing date until the complete release of all the shares.

The value of the shares issued has been reduced by a 43% discount to consider the impact of the escrow and a writedown to adjust the quoted price of the shares to the quoted market price.

The acquisition has been accounted for using the purchase method, and the results of operations have been consolidated from the date of acquisition. The following table summarizes the purchase price allocation, including acquisition-related costs based on the estimated fair value of net assets at the date of acquisition.

	\$
Cash and cash equivalents	437,214
Other current assets	586,478
Property, plant and equipment	38,634
Identifiable intangible assets:	
Technologies	530,000
Backlog	410,000
Customer relationships	1,270,000
Other intangible assets	165
Deferred financing expenses	21,052
Future income tax assets i)	533,848
Total assets acquired	<u>3,827,391</u>
Current liabilities	581,794
Long-term debt	64,133
Future income tax liabilities ii)	690,000
Total liabilities assumed	<u>1,335,927</u>
Net identifiable assets acquired	2,491,464
Goodwill	<u>203,089</u>
Purchase price	<u>2,694,553</u>
Settled as follows:	
Cash paid through the issuance of a long-term loan (note 11)	1,250,000
Balance of purchase price payable (note 11)	250,000
Common shares issued (note 13)	1,088,063
Acquisition-related costs settled in cash	106,490
	<u>2,694,553</u>

Amadeus International Inc.

Notes to Consolidated Financial Statements

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- i) A part of the company's future income tax assets against which a valuation allowance was established in the prior years has been accounted for in connection with the acquisition of M3K in order to consider the tax planning with respect to the different entities of the consolidated group.
- ii) Future income tax liabilities have been accounted for in order to consider temporary differences related to the identifiable intangible assets acquired.

Goodwill is not deductible for income tax purposes.

Should the company complete a financing exceeding \$2,000,000 at a price lower than \$0.35 per share before December 31, 2005, it shall issue additional common shares not exceeding 2,471,419 shares and this, without additional compensation.

5 Accounts receivable

	2005 \$	2004 \$
Trade	1,374,242	797,243
Others	34,036	16,772
	1,408,278	814,015

6 Property, plant and equipment

	2005			2004		
	Cost \$	Accumulated depreciation \$	Net amount \$	Cost \$	Accumulated depreciation \$	Net amount \$
Office furniture and equipment	115,184	72,681	42,503	98,045	51,734	46,311
Computer equipment	454,954	313,076	141,878	404,159	239,452	164,707
Leasehold improvements	106,644	93,684	12,960	56,229	44,428	11,801
Assets held under capital leases						
Office furniture and equipment	41,829	22,914	18,915	39,956	23,780	16,176
Computer equipment	182,256	182,256	-	-	-	-
	900,867	684,611	216,256	598,389	359,394	238,995

Amadeus International Inc.
Notes to Consolidated Financial Statements
June 30, 2005 and 2004

7 Intangible assets

	2005			2004		
	Cost \$	Accumulated amortization \$	Net amount \$	Cost \$	Accumulated amortization \$	Net amount \$
Software	239,773	169,922	69,851	172,218	102,870	69,348
Intellectual property	45,224	41,461	3,763	44,699	38,315	6,384
Technologies	530,000	11,042	518,958	-	-	-
Backlog	410,000	17,083	392,917	-	-	-
Customer relationships	1,270,000	10,583	1,259,417	-	-	-
Development expenses	665,093	114,839	550,254	500,142	-	500,142
Incorporation expenses	15,434	11,151	4,283	8,782	3,584	5,198
Software held under capital leases	53,937	53,937	-	-	-	-
	<u>3,229,461</u>	<u>430,018</u>	<u>2,799,443</u>	<u>725,841</u>	<u>144,769</u>	<u>581,072</u>

Research and development expenses

	2005 \$	2004 \$
Salaries, fringe benefits and subcontracting	1,473,221	1,596,646
Training	1,668	1,542
Rental expenses	50,440	48,300
Stationery and supplies	26,705	23,322
Telecommunications	3,299	4,072
	<u>1,555,333</u>	<u>1,673,882</u>
Tax credits	(318,383)	(781,838)
Capitalized expenses, net of investment tax credits (nil in 2005; \$568,080 in 2004)	(69,403)	(70,095)
Revision of prior year tax credits related to capitalized development expenses	<u>(95,548)</u>	<u>-</u>
Amount reflected in earnings	<u>1,071,999</u>	<u>821,949</u>

Amadeus International Inc.
Notes to Consolidated Financial Statements
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8 Deferred financing expenses

	2005			2004		
	Cost \$	Accumulated amortization \$	Net amount \$	Cost \$	Accumulated amortization \$	Net amount \$
Deferred financing expenses	215,638	116,818	98,820	157,734	48,507	109,227

9 Net investment in a lease agreement

	2005 \$	2004 \$
Total minimum payments required under the lease, 12.5%	63,840	104,160
Unearned income	(5,024)	(12,700)
	58,816	91,460
Less: Current portion	36,061	32,644
	22,755	58,816

Minimum instalments required over the next years under the sales-type lease are as follows:

	\$
Years ending June 30, 2006	40,320
2007	23,520
	63,840

10 Credit facilities

The company has an available line of credit of an authorized amount of \$750,000, bearing interest at prime rate plus 0.75% and renewable on October 31, 2005. A moveable hypothec on the universality of receivables has been given as security for the line of credit. The authorized amount will increase to \$1,500,000 once the company will have confirmed the realization of a planned financing round of \$3,000,000.

A letter of credit in the amount of \$9,042 has been issued in favour of the lender. This amount has been applied against the authorized line of credit.

Amadeus International Inc.

Notes to Consolidated Financial Statements

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The company also has a loan secured by the refundable tax credits, of an authorized amount of \$450,000. This loan bears interest at prime rate plus 1.75%, is secured by La Financière du Québec and is repayable on receipt of tax credits. As at June 30, 2005, this loan is unused.

11 Long-term debt

	2005 \$	2004 \$
Loan, at prime rate plus 3%, plus a royalty corresponding to 0.25% of the sales, payable in monthly principal instalments of \$5,850 plus interest, maturing in July 2007. A hypothec on all present and future intangible assets and a subordinated guarantee on all the company's assets have been given as security	76,050	146,250
Loan for marketing purposes, non-interest bearing, payable in November 2005	18,401	36,803
Loan, at prime rate plus 3%, payable in monthly principal instalments of \$4,333 plus interest, maturing in October 2005. A moveable hypothec on computer equipment has been given as security	13,707	65,707
Loan, at prime rate plus 2.25%, payable in monthly principal instalments of \$892 plus interest, maturing in August 2007. A moveable hypothec on leasehold improvements has been given as security	23,192	33,896
Loan, 12.9%, payable in monthly instalments of \$297 including principal and interest, maturing in September 2009. Computer equipment has been given as security	11,775	13,530
Loan of an authorized amount of \$1,500,000, at prime rate plus 1.75%, payable in monthly instalments of \$27,778 plus interest beginning in January 2006, maturing in June 2010. A moveable hypothec on accounts receivable as well as on all present and future assets and intellectual property rights has been given as security *	1,250,000	-
Balance of purchase price payable, non-interest bearing, maturing at the latest on August 31, 2005, payable through the aforementioned authorized loan of \$1,500,000 *	250,000	-
Obligations under capital leases for office furniture and equipment and computer equipment, 13.9%, payable in monthly instalments of \$2,729 including interest, maturing on different dates between January 2007 and April 2008	62,148	-
Obligations reimbursed during the year	-	6,142
	<u>1,705,273</u>	<u>302,328</u>
Less: Current portion	<u>307,566</u>	<u>159,370</u>
	<u>1,397,707</u>	<u>142,958</u>

* Those debts are subject to the attainment of certain financial ratios, which have not been met as at June 30, 2005. However, the company has obtained a waiver from its lender in this regard.

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Instalments required over the next five years are detailed as follows:

	Long-term loans	Obligations under capital leases	
	Principal \$	Principal \$	Interest \$
2006	281,868	25,698	7,037
2007	352,377	25,616	3,299
2008	337,948	10,834	587
2009	336,551	-	-
2010	334,381	-	-
	1,643,125	62,148	10,923

12 Convertible debentures

In June 2003, the company issued convertible debentures for an amount of \$1,950,000, bearing interest at an annual rate of 10% for the first 60 months, and from the fifth anniversary to maturity, being in June 2011, at the greater of the following: 10% or the Bank of Canada rate plus 7%, payable on a monthly basis. Convertible debentures are payable in 36 equal instalments from the 61st month and may be converted at the holder's option into Class A shares at the rate of \$0.4129 per share anytime until the full repayment of principal and interest. The conversion price reflects the modifications that were brought upon the December 23, 2004 amalgamation (note 3).

The company may require the holder to convert the debentures into Class A shares if the following conditions are met:

- the company is not in default;
- the shares concerned are listed on a recognized stock exchange;
- the average unit price of the shares was not less than 3 times the conversion price anticipated during the 20 sessions preceding the notice of conversion issued by the company.

A sum of \$1,560,889 (\$1,548,429 as at June 30, 2004) out of the convertible debentures is considered to be part of the long-term debt. This sum represents the present worth of principal and interest instalments at an estimated effective rate of 15% until June 2011. An amount of \$380,924 represents the value of the conversion right considered to be an equity component (note 14), net of related financing expenses and future income tax asset.

Principal instalments required over the next five years amounts to \$0 in 2006, 2007 and 2008 and to \$650,000 in 2009 and 2010.

Amadeus International Inc.

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13 Share capital, stock options and warrants

Authorized

Unlimited number of common shares, without par value, voting and participating

The following table summarizes the common share activity since July 1, 2003:

	2005		2004	
	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	19,237,253	1,813,059	19,237,253 *	1,813,059
Issuance of shares upon the amalgamation (note 3)	7,050,000	63,713	-	-
Issuance of shares upon the business combination (note 4)	5,428,571	1,088,063	-	-
Issuance of shares upon the private placement	2,756,463	1,354,235	-	-
Share issue expenses	-	(81,419)	-	-
Share purchase financing agreement **	(90,909)	(50,000)	-	-
Balance – End of year	34,381,378	4,187,651	19,237,253	1,813,059

* As of the amalgamation date, the resulting company issued 19,237,253 common shares in exchange for 13,695,894 Class A shares of Amadeus International Inc.

** The company has a receivable from an employee of \$50,000 related to a share purchase loan granted to him. This loan bears interest at prime rate plus ¼% with no terms of repayment. These shares are held as security for the loan.

Issuance of shares and warrants under a private placement

On December 23, 2004, the company completed a private placement of 2,729,190 units at a price of \$0.55 per unit for an offering of \$1,501,050. Each unit consists of one share of the company and a half-warrant. Each whole warrant entitles its holder to subscribe for one share at a price of \$0.85 per share within eighteen months following the closing date of the private placement (at a price of \$0.65 for investors over \$500,000 within twenty-four months following the closing date of the private placement). The fair value of those warrants amounts to \$160,385 and has been included under caption "Other equity components" in Shareholders' Equity. As part of this private placement, the company issued, on January 10, 2005, an aggregate number of 27,273 units at a price of \$0.55 per unit for an offering of \$15,000. Each unit consists of one share of the company and a half-warrant. Each whole warrant entitles its holder to subscribe for one share at a price of \$0.85 per share within eighteen months following the closing date of the private placement. The fair value of those warrants amounts to \$1,430 and has been included under caption "Other equity components" in Shareholders' Equity.

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Stock options

In March 2005, further to the amalgamation that occurred in December 2004, the company's Board of Directors adopted a stock option plan for directors, employees and consultants providing services to the company. The exercise price shall not be lower than the quoted market price of the TSX Venture Exchange on the day preceding the date of grant. The number of shares that is issuable under the plan shall not exceed 3,090,264 common shares, and the maximum number that may be granted to an optionee shall not exceed 5% of all the outstanding common shares. The basis and vesting period of stock options will be determined and authorized by the Board of Directors. Options expire after a maximum period of ten years following the date of grant.

The following tables present the stock option activity:

a) Options granted under the stock option plan

	2005			2004		
	Number	Stated value \$	Weighted average exercise price \$	Number	Stated value \$	Weighted average exercise price \$
Outstanding – Beginning of year	-	-	-	-	-	-
Granted	2,215,000	-	0.30	-	-	-
Cancelled	(255,000)	-	0.30	-	-	-
Net compensation costs	-	23,767	-	-	-	-
Outstanding – End of year	1,960,000	23,767	0.30	-	-	-

During the year ended June 30, 2005, the company granted 2,215,000 stock options at an exercise price of \$0.30 and cancelled 255,000 of these stock options following some employees' departure. These options will generate aggregate compensation costs of \$372,120 during their vesting period. These costs are amortized on a straight-line basis over their vesting period of three years. During the year ended June 30, 2005, an amount of \$23,767 has been allocated to the statement of earnings and to shareholders' equity.

The fair value of options granted was estimated using the Black-Scholes options pricing model with the following weighted assumptions:

Risk-free interest rate	3.50%
Expected volatility	75%
Dividend yield	Nil
Expected life	5 years
Weighted fair value	\$0.19

Options granted are exercisable at the rate of one thirty-sixth per month commencing on the date of grant.

Amadeus International Inc.
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b) Options granted external to the stock option plan

	2005			2004		
	Number	Stated value \$	Weighted average exercise price \$	Number	Stated value \$	Weighted average exercise price \$
Outstanding – Beginning of year	87,086	-	0.49	87,086 *	-	0.49
Assumed upon the amalgamation (note 3)	1,205,000	427,954	0.20	-	-	-
Cancelled	(5,618)	-	0.41	-	-	-
Net compensation costs	-	-	-	-	-	-
Outstanding – End of year	1,286,468	427,954	0.30	87,086	-	0.49

* As of the amalgamation date, the resulting company granted 87,086 stock options in consideration of the 62,000 stock options of Amadeus International Inc. These options are exercisable at the rate of 25% per annum commencing on the first anniversary date of the date of grant.

As of the amalgamation date, the company assumed 1,205,000 stock options at an exercise price of \$0.20.

The fair value of options granted was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

Risk-free interest rate	3.34%
Expected volatility	75%
Dividend yield	Nil
Expected life	2.87 years
Weighted average fair value	\$0.36

Options granted are fully exercisable from the date of grant.

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The following table summarizes information about stock options as at June 30, 2005:

Exercise price \$	Options outstanding as at June 30, 2005		Options exercisable as at June 30, 2005	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
0.20	1,205,000	2.3	1,205,000	2.3
0.30	1,960,000	4.8	108,889	4.8
0.41	58,994	7.9	29,497	7.9
0.71	22,474	5.6	22,474	5.6
	3,246,468	4.0	1,365,860	2.7

Pro-forma information on stock-based compensation plan

If the fair value based method had been used to account for compensation costs related to stock options granted to employees before the adoption of the new standard on July 1, 2002, the net loss and related net loss per share figures on a pro-forma basis would be as follows:

	2005 \$	2004 \$
Net loss for the year	2,805,638	1,108,400
Pro-forma adjustment for compensation costs	2,469	2,347
Pro-forma net loss for the year	2,808,107	1,110,747
Basic and diluted net loss per share	0.11	0.06
Basic and diluted pro-forma net loss per share	0.11	0.06

These options, which have a weighted average fair value of \$0.2147, will generate aggregate compensation costs of \$9,876 over their vesting periods. Those costs will be amortized over their vesting periods using the straight-line method, resulting in annual compensation costs of \$2,469 in 2006 and of \$2,246 in 2007.

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Warrants

The following table presents the warrant activity:

	2005			2004		
	Number	Stated value \$	Weighted average exercise price \$	Number	Stated value \$	Weighted average exercise price \$
Granted and outstanding – End of year	1,378,244	161,815	0.78	-	-	-

The following table summarizes information about warrants as at June 30, 2005:

Exercise price \$	Number	Weighted average remaining contractual life (years)
0.65	454,546	1.5
0.85	923,698	1.0
	1,378,244	1.1

The fair value of warrants granted was estimated using the Black-Scholes valuation model with the following weighted average assumptions:

Risk-free interest rate	3.00%
Expected volatility	75%
Dividend yield	Nil
Expected life	1.5 years
Weighted average fair value	0.11

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Notes to Consolidated Financial Statements
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14 Other equity components

	2005 \$	2004 \$
Equity component of convertible debentures (note 12)	380,924	380,924
Stock options (note 13)	451,721	-
Warrants (note 13)	161,815	-
	<hr/>	<hr/>
	994,460	380,924
	<hr/>	<hr/>

15 Commitments

Long-term lease agreements

The company has entered into long-term lease agreements expiring in September 2005 and April 2010. As at June 30, 2005, future minimum payments total \$342,920. Minimum annual payments required over the next five years under these agreements amounts to \$86,560 in 2006, \$72,160 in 2007 and 2008, \$67,486 in 2009 and \$44,544 in 2010.

Furthermore, the company undertook to pay its share of certain lessor's operating costs with regard to a lease agreement.

16 Income taxes

The income tax expense (recovery) differs from the amount that would have been calculated using the combined Canadian federal and provincial statutory income tax rate of 31% (32% in 2004), as follows:

	2005 \$	2004 \$
Income tax recovery using the combined Canadian statutory income tax rate	(856,155)	(358,082)
Increase (decrease) due to:		
Reduction of federal statutory tax rate	-	8,236
Small business deduction	-	22,900
Non-deductible expenses	8,140	14,408
Valuation allowance	903,092	303,364
Others	(9,467)	(384)
	<hr/>	<hr/>
	45,610	(9,558)
	<hr/>	<hr/>

Amadeus International Inc.
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Future income tax assets and liabilities are detailed as follows:

	2005	2004
	\$	\$
Long-term future income tax assets		
Convertible debenture issue expenses	4,421	6,812
Investments	3,240	3,240
Property, plant and equipment	148,059	92,116
Intangible assets	-	34,975
Other assets	-	1,020
Share issue expenses	178,019	16,867
Development expenses	2,512	107,415
Non-capital losses	1,526,785	583,207
	<u>1,863,036</u>	<u>845,652</u>
Valuation allowance	<u>(1,126,334)</u>	<u>(583,207)</u>
	<u>736,702</u>	<u>262,445</u>
Current future income tax liabilities		
Investment tax credits	-	76,972
Long-term future income tax liabilities		
Intangible assets	663,633	1,004
Other assets	73,069	9,826
Development expenses	-	18,491
	<u>736,702</u>	<u>29,321</u>

The losses which can be carried forward against future years' taxable income are as follows:

Expiry date	<u>Canada</u>		<u>United States</u>
	Federal \$	Provincial \$	\$
2007	383,799	447,459	-
2008	21,036	-	-
2009	348,677	775,915	-
2010	844,763	861,379	-
2014	1,103,022	1,289,086	-
2015	1,832,034	1,828,691	-
2025	-	-	175,421
	<u>4,533,331</u>	<u>5,202,530</u>	<u>175,421</u>

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17 Financial instruments

Fair value

The fair value of cash, accounts receivable, net investment in lease agreement, excess of outstanding cheques over bank balance, bank loan, loan secured by the refundable tax credits and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity or to current interest rates.

The fair value of long-term debt items and convertible debentures approximates their carrying values. The fair value has been established using the discounted future cash flows under present financing agreements at interest rates to those which the company would currently be able to obtain for loans and debentures with similar terms and maturity dates.

Credit risk

Financial instruments which potentially subject the company to concentrations of credit risks consist primarily of accounts receivable and net investment in a lease agreement.

Due to the geographic distribution of the company's customers, there is no particular concentration of credit risk. Generally, the company does not require collateral or other security from customers for trade accounts receivable. In addition, the company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are considered to be uncollectible. Allowance for doubtful accounts amounts to \$138,378 as at June 30, 2005 and \$49,064 as at June 30, 2004.

Interest rate risk

As at June 30, 2005 and 2004, the company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Accounts payable	Non-interest bearing
Net investment in a lease agreement	12.5%
Excess of outstanding cheques over bank balance	Non-interest bearing
Bank loan	As described in note 10
Loan secured by the refundable tax credits	As described in note 10
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 11
Liability component of convertible debentures	As described in note 12

Currency risk

Approximately 36% of the company's sales are denominated in euros and US dollars (47% in 2004). Approximately 23% of its purchases are denominated in euros and US dollars (25% in 2004). Consequently, it is exposed to currency risks related to currency fluctuations. The company did not enter into any forward exchange contracts to hedge against this currency risk.

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Major customers

The company's revenues by customer representing 10% or more of the annual sales are detailed as follows:

	2005	2004
	%	%
Customer 1	14.31	-
Customer 2	-	11.50

18 Segment information

The company is organized under one single operating segment, namely the sale of software and services in the compliance sector.

Revenues by geographic region are detailed as follows:

	2005	2004
	\$	\$
Canada	1,138,085	1,095,702
Portugal	171,501	491,418
France	160,971	247,367
United States	303,006	259,769
Others	10,671	20,818
	<u>1,784,234</u>	<u>2,115,074</u>

Revenues have been allocated to geographic regions based on the country of residence of the related customers.

Long-lived assets, which include property, plant and equipment, intangible assets and goodwill, are mainly located in Canada.

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19 Net loss for the year

The net loss for the year has been established considering the following items:

	2005	2004
	\$	\$
Depreciation of property, plant and equipment	77,466	87,566
Amortization of intangible assets	182,040	26,648
Amortization of deferred financing expenses	31,459	32,456
Accretion on convertible debentures	12,460	4,982
Foreign exchange loss	43,680	4,732
Interest on current liabilities	53,848	27,652
Interest on long-term debts	33,127	35,385
Interest on convertible debentures	195,812	195,000
Interest income	31,036	2,341
Loss on sale of property, plant and equipment	-	3,062

20 Additional disclosures on cash flows

a) Net change in non-cash operating working capital items

	2005	2004
	\$	\$
Accounts receivable	111,481	74,242
Refundable tax credits (note 20b)	1,087,360	37,451
Income taxes recoverable	(7,551)	5,158
Prepaid expenses	(3,740)	(1,791)
Accounts payable and accrued liabilities	(84,688)	48,728
Income taxes	89,000	-
Deferred revenues	(4,803)	86,775
	<u>1,187,059</u>	<u>250,563</u>

b) Items not affecting cash related to investing and financing activities:

	2005	2004
	\$	\$
Handing over of a fixed asset in consideration of the writeoff of a long-term debt	-	4,234
Acquisition of a fixed asset in consideration of a long-term debt	-	12,150
Investment tax credits receivable applied against capitalized development expenses	(95,548)	568,080
Deferred revenues uncashed related to the net investment in a lease agreement	-	38,000

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c) Cash

Net cash included in the cash flow statement comprises the following balance sheet amounts:

	2005	2004
	\$	\$
Cash	231,134	-
Excess of outstanding cheques over bank balance	(114,404)	-
	<u>116,730</u>	<u>-</u>

d) Additional information

	2005	2004
	\$	\$
Interest cashed	(31,036)	(2,341)
Interest paid	274,787	258,037
Income taxes paid	14,193	-

21 Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted earnings per share calculations:

	2005	2004
Basic and diluted weighted average number of shares outstanding	<u>24,724,557</u>	<u>19,237,253</u>

For fiscal 2005, the potentially dilutive weighted average number of shares outstanding was the same as the basic weighted average number of shares outstanding since the effect of stock options at an exercise price of \$0.20 would have been anti-dilutive. Accordingly, the diluted net loss per share for that year was calculated using the basic weighted average number of shares outstanding.

However, should the company's basic earnings per share have been positive, the options at an exercise price of \$0.20 would have been dilutive and would have resulted in the addition of 641,618 shares to the weighted average number of shares outstanding used in the diluted earnings per share calculation.

For the year ended June 30, 2004, the diluted net loss per share was the same as the basic net loss per share since there were no dilutive items. Accordingly, the diluted net loss per share for that year was calculated using the basic weighted average number of shares outstanding.

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Furthermore, the following table present items excluded from the calculation of diluted earnings per share because the exercise price was greater than or equal to the average market price of the shares:

	2005	2004
Shares that would be issued following the conversion of debentures	4,722,183	4,722,183
Weighted average number of shares following the exercise of stock options at exercise prices of \$0.30, \$0.41 and \$0.71	418,910	77,656
Weighted average number of shares following the exercise of warrants at exercise prices of \$0.65 and \$0.85	716,732	-