CORECO

EXCELLENCE IN MACHINES THAT SEE

2004 Annual Report

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About Coreco

Coreco Inc. designs, manufactures and markets machine vision hardware and software that help enhance the productivity, quality and cost-competitiveness of manufacturing processes for customers throughout the world.

The Company serves two target markets, original equipment manufacturers (OEMs) and end-users.

The OEM group (www.imaging.com) provides a full range of frame grabbers, embedded products and accompanying software for integration in high-performance machine vision applications in the industrial vision, medical imaging, multimedia and surveillance markets.

The Intelligent Products (IPD) group (www.goipd.com) specializes in providing user-friendly, cost-effective vision appliances for task-specific factory floor applications, such as gauging, high-performance alignment, inspection, assembly verification and machine guidance.

Coreco employs a staff of 140 people and has operations in Montreal (QC), Vancouver (BC) and Billerica near Boston (MA). In addition to sales offices in the Eastern, Central and Western parts of the United States and in Japan, Coreco has an international distribution network spanning more than 28 countries.

Message to Shareholders

Fiscal 2004 was an excellent year for Coreco.

For the twelve months ended December 31, 2004, revenues increased 28% to US$24,447,080. The gross margin increased to 60% of revenues, and net earnings doubled to US$2,416,747 or US$0.34 per share from US$1,184,254 or US$0.17 in 2003.

This strong performance reflects our continuing success in providing the latest in machine vision technology to a diversified customer base, which spans a wide range of industries throughout the world.

In 2004, all of our major markets – North America, Europe and Asia – demonstrated strong revenue growth. Our global presence was further reinforced with the establishment of our first overseas office in Tokyo, Japan, which will provide sales and technical support to the Asian markets.

Both our OEM and IPD groups contributed to our success in the past year. Our OEM customers, including new ones in the Flat Panel Display and medical industries, saw their business volumes return to 2001 levels. Our end-user applications accounted for 9% of fourth quarter revenues, the best performance to date. In addition, our products were selected for design into 66 OEM applications compared with 56 last year. Design-wins were achieved across a wide range of industries including medical, transportation and electronics applications.

New products are an important driver of future growth. In 2004, Coreco launched the Anaconda high-performance vision processor targeting high-end Flat Panel Display and medical applications. Our *iInspect* and *Netsight 2* vision systems are being well received by the market and should increase our end-user sales in 2005. Currently in development is a high-performance smart camera, scheduled for completion in 2005, which is designed to increase performance and lower cost for manufacturers of Flat Panel Displays.

In fiscal 2005, we look forward to capturing the full benefits of our growth initiatives as well as the growing momentum of both our OEM and IPD groups.

On February 16, 2005, DALSA Corporation and Coreco Inc. announced that they had entered into an arrangement agreement, pursuant to which DALSA will acquire all of the issued and outstanding shares of Coreco, subject to certain conditions, including regulatory approvals. The total consideration paid by DALSA for Coreco is approximately CAN$72 million representing CAN$10.00 per Coreco share. The transaction is expected to close in April.

We take this opportunity to invite you to our special meeting of shareholders to be held on Friday, April 22, 2005 in Montreal. We look forward to seeing you.

On behalf of the Board,

Keith A. Reuben,
President and Chief Executive Officer

Robert Mee,
Chairman of the Board

Management's Discussion and Analysis

The following discussion and analysis of financial condition, results of operations and cash flows should be read in conjunction with the audited Consolidated Financial Statements for the years ended December 31, 2004 and 2003.

All amounts are expressed in U.S. dollars unless otherwise stated.

Forward-looking statements – *Statements in this report, or any document filed by Coreco Inc. (the "Company") with the different governing authorities, or in any other written or oral communication by or on behalf of the Company, to the extent not directly and exclusively based on historical events, constitute forward-looking statements. These statements represent the Company's intentions, plans, expectations and beliefs, and no assurance can be given that the results described in such statements will be achieved.*

Forward-looking statements include, without limitation, statements evaluating market and general economic conditions in the following sections, and statements regarding future-oriented costs and expenditures. Investors are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date thereof. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially. Such risks and uncertainties with respect to the Company include the effects of general economic conditions, changing foreign exchange rates and actions by government authorities, uncertainties associated with legal proceedings and negotiations, industry supply levels, competitive pricing pressures and misjudgments in the course of preparing forward-looking statements. The forward-looking information in this report, which includes this management discussion and analysis, describes our expectations as of March 9, 2005. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Vision, Core Business and Strategy

Vision – Coreco Inc. is a leader in the design, development, manufacturing and marketing of hardware and software for high-performance computer vision applications, primarily in the medical imaging and industrial vision markets. Simply put, Coreco's products provide computers with the eyes (hardware) and the brains (software) to see and analyze images. Coreco's products are used in a wide variety of applications where the required performance surpasses the capabilities of the human eye in terms of speed, precision and repetitive movement. Coreco products add value to the manufacturing processes of customers by improving speed and reliability as well as reducing costs.

Core business – The present customer base is composed primarily of Original Equipment Manufacturers (OEMs). These customers build products mainly for the industrial and medical vision markets. An example of an OEM application for the industrial vision market is an inspection system to monitor an assembly line to build flat panel display monitors. Typical medical vision applications would be ultrasound and MRI equipment where the objective is to deliver an improved image to facilitate diagnosis.

Operations – The Company employs 140 people and has operations in Montreal (QC), Vancouver (BC) and Billerica near Boston (MA), with additional sales offices in Cleveland (OH), San Juan Capistrano (CA) and Tokyo (Japan). Founded in 1979, Coreco's success is driven by sound financial management combined with its commitment to the research and development of value-added products to serve the evolving needs of the computer vision market.

OEM strategy – For the past twenty years, the Company has focused on OEM customers. The OEM market is well defined and the players are well known. This market, affected by a slowdown in mid 2001, began to pick up momentum over the last 18 months. As a result of the diversification of Coreco's customer base both in terms of machine vision applications and geographic distribution, the Company was less affected by the slowdown than other industry players — both profitability and strong cash generation were maintained during this period. Coreco is one of the top players in this market and works to maintain its leadership position by continuously developing new products for OEM applications.

End-user strategy – In order to generate more revenue growth, the Company made a strategic decision in 2001 to enter the end-user market for vision applications. Whereas OEM products are oriented toward complex vision applications that require engineered customization and applications support thus commanding a higher price, smart products are cost-effective and easy to use and target everyday machine vision applications. The most recent market studies estimate the size of the end-user market to be approximately equivalent to that of the OEM machine vision market. The end-user market is not yet well developed and, in the opinion of management, there is room for significant and rapid growth for Coreco.

To be successful, a smart product must be easy to use with a price point that makes it attractive to a wide variety of manufacturers. A typical example is Coreco's *iCheck.* The *iCheck* product is used to solve common manufacturing problems, like presence/absence and object-of-interest counting.

Growth and shareholder value creation – Management has always focused on generating profits. With the prudent investment of the proceeds from its initial public offering in 1996 and three successful acquisitions, sales have grown from $8.144 million in 1996 to $24.447 million in 2004.

In order to continue to generate significant revenue growth, the Company must address new markets that demonstrate a large potential for growth and profit. Over the past 3 years, the Company has invested significant resources to develop a line of smart products to address the end-user market. The contribution to revenues from this new product line has grown from 3% in fiscal 2003 to 7% in fiscal 2004, reaching 9% of revenues in the fourth quarter of 2004.

The OEM market is still growing, and Coreco is committing significant R&D effort to support the development of new products to address this core business. The Company still considers that this market has exciting potential and fully intends to maintain its leadership position.

Key Performance Drivers

The Company's success is driven by the following factors:

- Leading-edge vision technology;
- Significant investment in the research and development of new products;
- Unique value-added approach with OEM customers;
- Lean structure;
- Sound management of resources;
- Solid balance sheet; and
- Well-diversified customer base.

The principal indicators to measure the performance of the Company are:

- Earnings;
- Cash flow generation;
- EBITDA (Earnings before interest, income taxes, depreciation and amortization);
- Research and development expenditures;
- Gross margin; and
- Design-wins.

Earnings – Apart from the small loss incurred in the first quarter of 2003 due to soft market conditions, the Company has delivered consistent profitability from its operations since 1993 and this objective will continue to guide its management in the future.

Cash flow generation – As a result of the Company's lean structure, gross profit converts easily into net earnings and cash. Since the Company's operations are not capital-intensive, significant investments in capital assets are not required. Instead, most capital-intensive functions are outsourced to strategic partners at a competitive cost.

Research and development expenditures – To ensure sales growth in a challenging high technology environment, management has invested between 17% and 23% of sales over the last five years in research and development. This ensures a steady flow of new products to address the evolving needs of the machine vision market. This rationale is being validated in today's market. Customers, who are emerging from the slowdown that affected the global economy in the last two years, are building new-generation applications that require mainly new-technology products. Companies with old-technology products, or without any new product offerings, are facing tremendous competitive pressure.

EBITDA – Earnings before interest, income taxes, depreciation and amortization is widely used in the financial community to compare the profitability of corporations and is used by management to evaluate the financing capacity of the Corporation. EBITDA does not have any standardized meaning prescribed by generally accepted accounting principles.

Gross margin – The gross margin is the key indicator of profitability. Product costing is an integral part of the design strategy to ensure that the final product generates the required margins. While final assembly of components is outsourced, the Company may manage the procurement of assembly components or, depending on cost, work with turnkey suppliers. This approach eliminates the need for significant capital expenditures and ensures the availability of additional capacity. Over the last five-year period, gross margin has represented approximately 55% to 61% of sales.

Design-wins – It can be difficult to monitor customer acceptance of products because of the length of the selling cycle. Therefore, the Company discloses the number of design-wins as an additional measurement of performance.

The design-win process involves a number of steps. First, a customer orders a product for evaluation in the design of a new product. This step may also be carried out concurrently with a competitor's product. During this period, lasting on average from 30 to 60 days, the customer will evaluate the product on the basis of performance, price and compatibility. The Company's OEM application group will assist the customer during this phase in evaluating the feasibility of the application and how to rapidly achieve his goals. Following this analysis, the customer will decide which product best meets the needs of his project. If he opts for a Coreco product, this is considered a design-win. In the next step, the customer finalizes the machine vision application with the help of Coreco's OEM application group. Finally, the customer will place a volume order for the product within on average six to eighteen months depending on the complexity of the application.

When evaluating the Company's performance, management considers the number of design-wins on an annual basis, given the variability of design-wins from quarter to quarter.

Capabilities to Achieve Desired Results

Capital resources – At December 31, 2004, the Company held $3.203 million in cash and cash-equivalents and had no long-term debt.

Human resources – At December 31, 2004, the Company employed 140 people, including 60 engineers, a level consistent with year-end 2003. All functions considered non-essential or not related to its core technology functions are outsourced.

The Company has been successful in attracting and retaining skilled human resources. Management is of the opinion that a competitive compensation package is necessary to attract and retain the best employees in its sector.

Manufacturing capacity – Since the Company outsources all manufacturing functions, it has never experienced problems with capacity. Over the years, Coreco has developed a network of turnkey manufacturers able to provide high quality service with competitive pricing.

Critical Accounting Policies

Measurement currency – Effective January 1, 2001, the Company adopted the U.S. dollar as its measurement and reporting currency as a result of the significance of operating, financing and investing transactions that are denominated in U.S. dollars.

Inventory obsolescence – The Corporation reviews on a regular basis the net realizable value of its inventory. Part of this process is to determine a reasonable provision for obsolescence. Management assesses the inventory reserve based on slow moving inventory, expected use, known obsolete items and other factors. The cost of inventory presented in the audited consolidated financial statements represents the value of the inventory net of a reasonable provision for obsolescence.

Goodwill – As part of the annual review, the Corporation performs an impairment test to evaluate if an adjustment is required for the goodwill recorded in the audited consolidated financial statements. The test was performed at the end of December 2004 and no charge was required.

Research and development expenditures – For many years, the Corporation adopted the policy of expensing all research and developments expenditures. In conformity with CICA section 3450, "Research and Development Costs", the Corporation decided that it would not be appropriate to capitalize the development cost of new products since the degree of certainty with regard to market acceptance of these products cannot be clearly defined during the development of such products.

Research tax credits – The investment tax credits recorded in the audited financial statements as a long-term asset represents the non-refundable portion of federal investment tax credits at the end of this year. This amount has been recorded on the basis that the Company will generate sufficient taxable income in the future to realize this asset.

Refer to note 2 in the audited financial statements for additional information concerning significant accounting policies.

Adoption of new accounting policies – On January 1, 2004, the Corporation adopted the following accounting standards, none of which had any impact on the consolidated financial statements.

a) Handbook Section 3063, "Impairment of Long-lived Assets": this Section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces the write-down provisions in Section 3061 "Property, Plant and Equipment." The provisions of the Section require an impairment loss for a long-lived asset when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which its carrying amount exceeds its fair value.

b) Handbook Section 3110, "Asset Retirement Obligations". The new standard requires the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets.

Refer to note 2 in the audited financial statements for additional information concerning new accounting policies and future accounting changes.

Disclosure of outstanding share data – As of December 31, 2004, the Company had 7,003,072 common shares outstanding and 430,500 stock options outstanding.

Additional information – The Company's Annual Information Form is available on SEDAR at www.sedar.com.

Operating Results

For fiscal 2004, the Company:

- reported revenues of $24,447,080 compared with $19,025,777 last year, resulting in net earnings of $2,416,747 or $0.34 per share versus net earnings of $1,184,254 or $0.17 per share last year;
- achieved a gross margin of 60.2% versus 59.0% last year;
- improved net working capital to $9,666,142 from $7,876,685 reported as at December 31, 2003.

Summary of Selected Quarterly Information (unaudited)

In thousands of U.S. dollars, except per share amounts

Fiscal 2004

	March 31	June 30	Sept. 30	Dec. 31	Total (audited)
Revenues	5,322	6,226	6,780	6,119	24,447
Gross margin	60.7%	61.1%	61.0%	58.1%	60.2%
Research and development expenditures (gross)	1,190	1,167	1,189	1,316	4,862
Selling and marketing expenses	1,133	1,414	1,400	1,418	5,365
Earnings before income taxes	495	801	1,146	695	3,137
Net earnings	340	553	800	724	2,417
Earnings per share (basic and diluted)	0.05	0.08	0.11	0.10[1]	0.34

[1] Includes a tax benefit for the year, recorded in the last quarter, of $0.04 per share, as a result of the strengthening Canadian dollar versus the U.S. dollar.

Fiscal 2003

	March 31	June 30	Sept. 30	Dec. 31	Total (audited)
Revenues	4,369	4,918	4,766	4,973	19,026
Gross margin	55.0%	58.7%	60.6%	61.2%	59.0%
Research and development expenditures (gross)	1,036	1,049	1,055	1,220	4,360
Selling and marketing expenses	1,024	1,061	1,047	999	4,131
Earnings (loss) before income taxes	(117)	360	345	600	1,188
Net earnings (loss)	(76)	284	274	702	1,184
Earnings (loss) per share (basic and diluted)	(0.01)	0.04	0.04	0.10[2]	0.17

[2] Includes a tax benefit for the year, recorded in the last quarter, of $0.04 per share, as a result of the strengthening Canadian dollar versus the U.S. dollar.

Fiscal 2002

	March 31	June 30	Sept. 30	Dec. 31	Total (audited)
Revenues	4,837	4,913	4,738	4,785	19,273
Gross margin	54.8%	55.5%	58.0%	56.6%	56.2%
Research and development expenditures (gross)	962	932	984	995	3,873
Selling and marketing expenses	945	930	936	966	3,777
Earnings before income taxes	223	381	307	323	1,234
Net earnings	164	276	233	267	940
Earnings per share (basic and diluted)	0.02	0.04	0.03	0.04	0.13

The following table presents certain items in the Consolidated Financial Statements of the Company as a percentage of sales.

	For the three months ended December 31, **2004**	2003	For the year ended December 31, **2004**	2003
Sales	**100%**	100%	**100%**	100%
Cost of goods sold	**42%**	39%	**40%**	41%
Gross margin	**58%**	61%	**60%**	59%
Expenses				
Research and development expenditures	**21%**	24%	**20%**	23%
Less research tax credits	**(8%)**	(9%)	**(6%)**	(7%)
	13%	15%	**14%**	16%
Selling and marketing	**23%**	20%	**22%**	22%
General and administrative	**11%**	13%	**10%**	13%
Amortization of capital assets	**1%**	2%	**1%**	2%
Financial, net	**(2%)**	(1%)	-	-
	46%	49%	**47%**	53%
Earnings before income taxes	**12%**	12%	**13%**	6%
Income taxes	-	(2%)	**3%**	-
Net earnings	**12%**	14%	**10%**	6%
Earnings before interest, income taxes, depreciation and amortization (EBITDA) (3)	**11%**	13%	**14%**	9%

(3) EBITDA (Earnings before interest, income taxes, depreciation, and amortization) is a widely used measure of cash operating earnings before financing charges, depreciation and amortization of capital assets and income taxes. EBITDA does not have any standardized meaning prescribed by generally accepted accounting principles.

EBITDA reconciliation with net earnings:

Net earnings	723,967	702,096	2,416,747	1,184,254
Plus:				
Income taxes	(30,000)	(102,000)	720,000	4,000
Financial, net	(135,793)	(57,942)	(48,755)	41,243
Amortization of capital assets	85,365	97,572	333,749	423,985
EBITDA	643,539	639,726	3,421,741	1,653,482

Revenues – Sales for 2004 were $24.447 million, compared with $19.026 million for 2003, representing an increase of 28%. Sales for the fourth quarter of 2004 were $6.119 million, compared with $4.974 million for the same period in 2003, representing an increase of 23%. The increase in sales is attributable to strong demand throughout the year from a diversified customer base using the latest machine vision technology in a wide range of industries around the world.

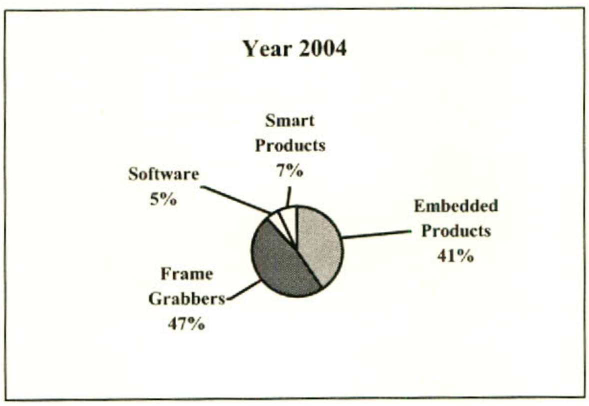
Year over year, 2004 revenues from the U.S. increased by 33% to $11.328 million from $8.538 million a year earlier, while revenues from Asia-Pacific increased by 30% and Europe by 22%. In 2004, U.S. accounted for 46% of the Company's total sales, Asia-Pacific for 24%, Europe for 27% and Canada for the remainder.

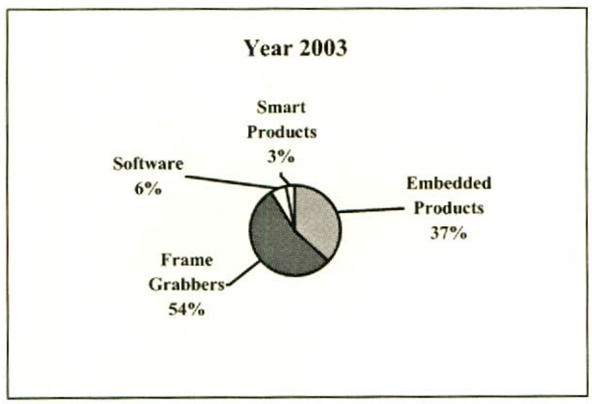
By product category, year-over-year sales of embedded products increased by 39%, while sales of frame grabbers increased by 14% and software by 9%. Sales of the Company's smart products grew by 180% to represent 7% of total revenues. The distribution of sales by product category for 2004 was 47% for frame grabbers, 41% for embedded products, 5% for software and 7% for smart products.

During the fourth quarter, revenues from the U.S. increased by 35% to $2.772 million from $2.057 million for the same period last year, while revenues from Europe increased by 22% and Asia-Pacific remained essentially the same. In the fourth quarter of 2004, the U.S. accounted for 45% of the Company's total sales, Asia-Pacific for 22%, Europe for 29%, and Canada for the remainder.

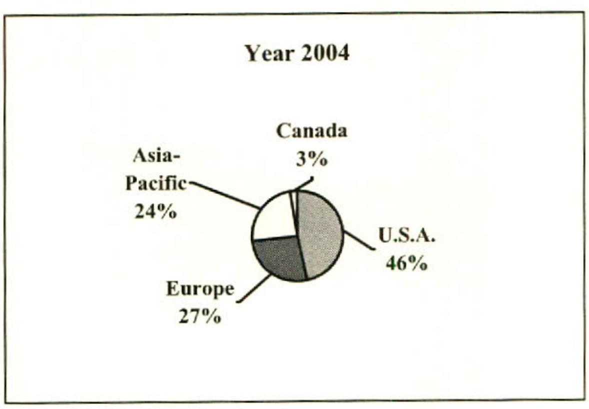
By product category, sales of embedded products increased by 33%, frame grabbers by 5%, software by 13% while smart products almost tripled. The distribution of sales by product category for the fourth quarter of 2004 was 44% for frame grabbers, 43% for embedded products, 4% for software and 9% for smart products.

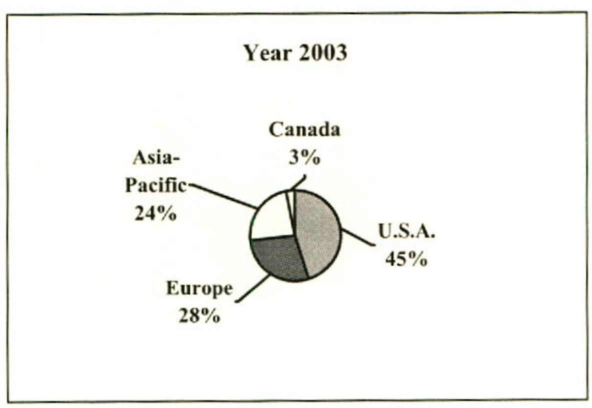
Revenues by Product Category
(% of sales)





Revenues by Geographic Region
(% of sales)





OEM products – In fiscal 2004, the Company's products were selected for design into 66 OEM applications compared with 56 last year.

Smart products – The Company's end-user products delivered a strong performance in fiscal 2004, almost tripling in revenues over the previous year. Substantial gains were made particularly in the automobile, food processing and medical markets. End-user applications accounted for 9% of total revenues in the fourth quarter of 2004, the best performance ever for this group.

Gross profit – For fiscal 2004, the gross profit amounted to $14.725 million or 60.2% of sales, compared with $11.227 million or 59.0% of sales for 2003. These levels are in line with management's objective to maintain the gross margin at approximately 60% of sales. The improvement in the gross margin is due to the combined reduction in material costs and overhead expenses.

For the three months ended December 31, 2004, the gross profit amounted to $3.557 million or 58.1% of sales, compared with $3.046 million or 61.2% one year earlier. The fourth-quarter reduction in gross margin below 60% is mainly due to the product and customer mix.

Research and development – For 2004, R&D expenditures increased 12% to $4.862 million or 20% of sales from $4.360 million or 23% of sales in 2003. For the three-month period ended December 31, 2004, R&D expenditures increased 8% to $1.315 million or 21% of sales from $1.221 million or 24% of sales in 2003. The increase in dollar terms is mainly due to the investment in the development of new products. The current R&D expenditures are in line with expected levels of spending and reflect the Company's commitment to maintain its leadership position in the machine vision market.

For fiscal 2004, investment tax credits for research and development totaled $1.425 million compared with $1.300 million for 2003. For the fourth quarter of fiscal 2004, investment tax credits for research and development totaled $515,000 compared with $468,000 for the same period in 2003. The increase in investment tax credits is consistent with the increase in research and development expenditures for the year.

Selling and marketing – For fiscal 2004, selling and marketing expenses totaled $5.365 million or 22% of sales versus $4.131 million or 22% of sales for 2003. For the three months ended December 31, 2004, selling and marketing expenses increased 42% to $1.419 million or 23% of sales from $999,360 or 20% of sales for the same period in 2003. For the year, the increase in dollar terms is mainly due to the additional resources put in place to support the growth in revenues from both the OEM and smart product markets, including the addition during the year of a sales support office in Japan.

General and administrative – In fiscal 2004, general and administrative expenses amounted to $2.501 million or 10% of sales versus $2.382 million or 13% of sales for fiscal 2003. For the three months ended December 31, 2004, general and administrative expenses amounted to $694,973, which is comparable in dollar terms with 654,666 for the same period in 2003.

Financial expense – Net financial expenses (income), comprising bank charges and net foreign exchange gains and losses, amounted to ($48,755) compared with $41,243 for 2003. The decrease in 2004 is mainly due to the elimination of interest expense on the long-term debt, which was fully reimbursed in October 2003, combined with a larger gain on exchange recorded in the last quarter of the year due to the strengthening of the Canadian dollar versus U.S. dollar. For the quarter ended December 31, 2004, net financial expense amounted to ($135,793) compared with ($57,942) for the same period in 2003, largely due to the strengthening of the Canadian dollar versus U.S. dollar. The gain was generated from the conversion of certain Canadian dollar-denominated balance sheets items, such as investment tax credits receivable in Canada, to U.S. dollars for presentation in the financial statements of the corporation.

See note 10 to the audited financial statements for the details of the financial expenses (income).

Income taxes – The tax provision for fiscal 2004 totaled $720,000, representing an effective tax rate of 23.0%, in line with our expectations. The tax rate of the Company is affected by the amount of net income earned in its various jurisdictions. The nominal amount of income tax expense for 2003 is explained principally by two factors: the effect of Coreco's using the U.S. dollar as its currency of measurement and reporting, combined with the Company's U.S. entity recording a tax benefit from a loss from operations in 2003.

The Company's Canadian operations pay income tax based on earnings measured in Canadian dollars. The decline in the U.S. dollar versus the Canadian dollar resulted in a loss on exchange and a corresponding reduction in income taxes for both 2004 and 2003. This reduction resulted in a tax benefit for the year of $0.04 per share, recorded in the last quarter of both periods. Management was monitoring the impact on tax provision every quarter and estimating the impact for the year. However, given that the exchange rates were fluctuating, the benefit recorded in the last quarter was greater that what we had estimated in the previous three quarters.

See note 8 to the audited financial statements for the components of the income tax expense.

Net earnings – Net earnings in 2004 more than doubled to $2.417 million from $1.184 million in 2003, representing earnings per share (basic and diluted) of $0.34 compared with $0.17 in 2003. Net earnings in the fourth quarter of 2004 were $723,967 compared with $702,096 for the same period in 2003, representing earnings per share (basic and diluted) of $0.10 in both periods.

Liquidity and Capital Resources

In fiscal 2004, cash flows generated by operating activities amounted to $135,833 compared with $1,638,579 during the same twelve-month period one year ago. The most significant factors contributing to this variation were the timing of research tax credit receipts and the increased inventory required to ensure the availability of key components supporting the growth in revenues, which offset the increase in profitability due to stronger sales in 2004 The provincial investment tax credits for fiscal 2003 were received in early 2005.

During the three months ended December 31, 2004, cash flows used by operating activities amounted to $387,264 compared with cash provided of $1.104 million during the same period one year ago. The most significant factor contributing to this variation was the decrease in the level of payables due to the payment of certain accrued liabilities combined with the timing of receipt of investment tax credits as described before.

In fiscal 2004, the Company repurchased 57,500 common shares for cancellation, at an average price of CAN$5.97 for a total consideration of US$264,010. During the fourth quarter of this year, the Company repurchased 4,200 common shares for cancellation, at an average price of CAN$5.14 for a total consideration of US$17,277. In April 2004, the Company renewed its normal course issuer bid program, entitling the Company to repurchase for cancellation a maximum of 200,000 shares over the twelve-month period ending April 7, 2005 through the facilities of the Toronto Stock Exchange.

During 2004, the Company issued 34,000 new common shares due to the exercise of options, generating $122,578. At the end of the year, 413,000 options of a total of 430,500 outstanding are exercisable at an average price of CAN$5.67. See note 14 (i) to the audited financial statements for subsequent events affecting the vesting period of options.

In fiscal 2004, investments in capital assets amounted to $312,405, compared with $243,280 for 2003. During the fourth quarter, investments in capital assets amounted to $75,150 compared with $23,192 for the same period in 2003.

In fiscal 2004, the decrease in cash was $318,004 compared with $642,827 a year earlier. The improvement was due to the elimination of long-term debt payment requirements in 2004, offset by the timing of tax credit receipts and increased inventory levels.

The Company reported a reduction in cash of $479,690 during the fourth quarter of 2004 compared with cash generated of $649,410 during the same period in 2003. This variation is mainly due to the decrease in the level of payables due to the payment of certain accrued liabilities combined with the delayed timing of investment tax credit receipts, partially offset by the debt repayment in the amount of $343,750 made in 2003.

At December 31, 2004, the Company held $3.203 million in cash and cash equivalents with no long-term debt.

Coreco has an operating credit facility to a maximum of CAN$7.0 million (US$5.824 million) that was unused as at December 31, 2004. Based on the asset levels at this date, the Company could have borrowed up to CAN$2.942 million (US$2.448 million). During 2003, the Company fully repaid its long-term debt and no longer has a revolving term loan facility. Under the operating credit facility, the Company is required to maintain a number of financial ratios, which have been respected.

Coreco believes that existing cash and credit facilities, as well as expected cash flows from operations, will be sufficient to meet all the Company's planned expenditures.

Risks

Seasonality – Historically, the Company's operating results have fluctuated on a quarterly basis as a result of the timing of standard sales to OEM customers. The Company expects that quarterly financial results will continue to fluctuate in the future. In the opinion of management, a more appropriate approach to assess the performance of the Company is to monitor its key performance drivers on a year-over-year rather than on a quarterly basis.

Risk of servicing the high technology and electronics sectors – The Company's customers are largely associated with the high technology and electronic sectors, which are subject to fluctuations in capital spending from time to time. Coreco believes that its exposure to risk in any specific sector is naturally mitigated by its large customer base operating across numerous sectors of activity in geographic markets around the world. No single customer represents more than 10% of revenues.

Dependence on new products and risk of product development delays – The Company's success depends upon the continuing market acceptance of its existing products, as well as its ability to enhance existing products and introduce new products and features to meet changing customer requirements. There can be no assurance that Coreco will be successful in identifying, developing, manufacturing and marketing new products, or enhancing its existing products, which could have a material adverse effect on the Company's business, operations and prospects. In order to reduce its exposure to this risk, the Company continues to invest a significant amount in research and development to ensure that it is in line with the latest machine vision technology available. The Company also has a dedicated group of engineers working closely with customers to ensure alignment with their needs and to understand the requirements of the evolving market for machine vision products and services.

Outlook

In fiscal 2004, the Company continued to achieve strong sales growth across all geographic markets and a wide variety of market segments for products targeting its core OEM customers. As for its smart camera products, revenues almost tripled, accounting for 7% of fiscal 2004 revenues – and 9% of fourth-quarter revenues.

Consistent with the Company's strategy, the OEM group is maintaining its focus on penetrating a broad range of industry sectors through the addition of new customers and new products, so as to minimize exposure to weakness in a specific industry at a given time. In the fourth quarter, the OEM group received 16 design-wins across a wide range of sectors, for a total of 66 in fiscal 2004. These design wins together with the introduction of new OEM products and high-performance smart cameras should fuel continued sales growth in fiscal 2005 and beyond.

Subsequent events

On February 15, 2005, the Corporation and Dalsa Corporation ("Dalsa") entered into a agreement, pursuant to which Dalsa will acquire all the issued and outstanding shares of the Company, subject to certain conditions, including regulatory approvals. The transaction will be completed by way of a Plan of arrangement (the "Arrangement").

Pursuant to the Arrangement, shareholders of Corporation will receive for each common share of the Company, at their election (and subject to pro-ration) either:

a) 0.5207 of a Dalsa common share;
b) CAN$10.00 in cash; or
c) A combination of cash and Dalsa common shares.

Subject to a maximum of CAN$35 million in cash available for the election.

In addition, and in connection with the Arrangement, on February 15, 2005, as permitted under the Corporation's stock option plan, the Board of Directors has approved a resolution to accelerate the vesting of all outstanding stock options, which will allow the exercise of such options prior to the closing of the transaction.

After due consideration of the report of the Special Committee, the Coreco Board, at a meeting held on February 15, 2005, determined that the consideration being offered to Shareholders under the Arrangement is fair, from a financial point of view, to the Shareholders, and that the Arrangement is in the best interests of Coreco and its Shareholders. Accordingly, the Coreco Board unanimously recommends that all Shareholders vote in favour of the Arrangement Resolution. The transaction is expected to close in April 2005.

On Febraury 23, 2005, the Corporation disposed of its 500,000 First Preferred shares in Dipix Technology Inc. in exchange for cash consideration in the amount of CAN$500,000. In addition, the Corporation received dividends in the amount of CAN$174,452 which will be recorded during the first quarter of 2005.

Management's Statement of Responsibility

The financial statements of Coreco Inc. and the other financial information included in this annual report are the responsibility of the Company's management and have been examined and approved by its Board of Directors. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts that are based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

The Company maintains internal control systems designed to ensure that financial information is relevant and accurate and that assets are safeguarded. Management recognizes its responsibility for conducting the Company's affairs to comply with the requirements of applicable laws and established financial standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its Audit Committee, which consists solely of outside directors. This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the Audit Committee meets periodically with the external auditors, either with or without the Company's management, to review their audit plan and discuss the results of their examinations.

The financial statements have been audited by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.
The external auditors have full and free access to the Audit Committee.

Keith H. A. Reuben

Keith Reuben,
President and Chief Executive Officer

Louis Daigneault,
Vice-President, Finance and Administration,
Secretary and Chief Financial Officer

Montreal, Canada
March 9, 2005

Auditors' Report

To the Shareholders of Coreco Inc.

We have audited the consolidated balance sheets of Coreco Inc. as at December 31, 2004 and 2003 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Montréal, Canada
March 9, 2005

CORECO INC.
Consolidated statements of earnings

years ended December 31,	2004	2003
(in U.S. dollars)	$	$
Sales	**24,447,080**	19,025,777
Cost of goods sold	**9,722,161**	7,798,882
Gross profit	**14,724,919**	11,226,895
Expenses (income)		
Research and development expenditures	**4,861,602**	4,360,233
Less research tax credits	**(1,425,000)**	(1,300,000)
	3,436,602	3,060,233
Selling and marketing	**5,365,476**	4,131,144
General and administrative	**2,501,100**	2,382,036
Amortization of capital assets	**333,749**	423,985
Financial (Note 10)	**(48,755)**	41,243
	11,588,172	10,038,641
Earnings before income taxes	**3,136,747**	1,188,254
Income taxes (Note 8)		
Current	**1,141,331**	460,975
Future	**(421,331)**	(456,975)
	720,000	4,000
Net earnings	**2,416,747**	1,184,254
Earnings per share - basic and diluted (Note 9)	**0.34**	0.17

See notes to consolidated financial statements.

Consolidated statements of retained earnings

years ended December 31,	2004	2003
(in U.S. dollars)	$	$
Balance, beginning of year	**2,716,279**	1,655,101
Net earnings	**2,416,747**	1,184,254
Excess of purchase price over book value of common shares acquired (Note 7 (a))	**(164,890)**	(123,076)
Balance, end of year	**4,968,136**	2,716,279

See notes to consolidated financial statements.

CORECO INC.
Consolidated balance sheets

as at December 31,	2004	2003
(in U.S. dollars)	$	$
Assets		
Current assets		
Cash and cash equivalents	**3,202,875**	3,520,879
Accounts receivable (Note 3)	**3,270,461**	2,834,561
Research tax credits receivable	**2,441,789**	670,164
Inventories (Note 4)	**3,829,030**	3,043,077
Prepaid expenses	**369,910**	321,086
Future income taxes (Note 8)	**108,196**	170,541
	13,222,261	10,560,308
Capital assets (Note 5)	**589,327**	610,671
Research tax credits	**405,000**	525,896
Future income taxes (Note 8)	**1,432,562**	818,886
Investment, at cost (Note 6)	**987,888**	987,888
Goodwill	**2,694,122**	2,694,122
Deferred financing fees	**-**	20,246
	19,331,160	16,218,017
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**2,032,658**	2,273,585
Income taxes	**1,241,789**	301,366
Future income taxes (Note 8)	**215,000**	42,000
Deferred revenues	**66,672**	66,672
	3,556,119	2,683,623
Long-term portion of deferred revenues	**38,882**	30,550
Future income taxes (Note 8)	**125,000**	168,000
	3,720,001	2,882,173
Commitments and contingencies (Note 12)		
Shareholders' equity		
Share capital (Note 7)	**10,527,360**	10,503,902
Cumulative translation adjustment	**115,663**	115,663
Retained earnings	**4,968,136**	2,716,279
	15,611,159	13,335,844
	19,331,160	16,218,017

See notes to consolidated financial statements.

Approved by the Board

Robert Mee,
Director

Jacques E. Lefebvre, C.M.,
Director

CORECO INC.
Consolidated statements of cash flows

years ended December 31,	2004	2003
(in U.S. dollars)	$	$
Cash flows from operating activities		
Net earnings	**2,416,747**	1,184,254
Adjustments for:		
Amortization of capital assets	**333,749**	423,985
Amortization of deferred financing fees	**20,246**	20,245
Future income taxes	**(421,331)**	(456,975)
Changes in non-cash working capital items		
Accounts receivable	**(435,900)**	(118,862)
Research tax credits receivable	**(1,771,625)**	190,920
Inventories	**(785,953)**	472,839
Prepaid expenses	**(48,824)**	(5,594)
Accounts payable and accrued liabilities	**(240,927)**	148,980
Income taxes	**940,423**	207,461
Research tax credits	**120,896**	(525,896)
Deferred revenues	**8,332**	97,222
	135,833	1,638,579
Cash flows used for financing activities		
Repurchase of shares	**(264,010)**	(256,876)
Proceeds from issuance of common shares	**122,578**	-
Repayment of long-term debt	**-**	(1,781,250)
	(141,432)	(2,038,126)
Cash flows used for investing activities		
Purchase of capital assets	**(312,405)**	(243,280)
Decrease in cash and cash equivalents	**(318,004)**	(642,827)
Cash and cash equivalents, beginning of year	**3,520,879**	4,163,706
Cash and cash equivalents, end of year	**3,202,875**	3,520,879
Supplemental information:		
Cash paid during the year for:		
Income taxes	**36,093**	254,400
Interest	**-**	43,560

See notes to consolidated financial statements.

1. Description of the business

Coreco Inc. (the "Corporation"), incorporated under the *Canada Business Corporations Act*, develops, manufactures, markets and sells computer vision products.

2. Significant accounting policies

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent liabilities in these financial statements. The balances that are subject to a high degree of estimation are allowances for doubtful accounts, research tax credits, provision for inventory obsolescence, goodwill and future income taxes. Actual results could differ from those estimates.

Consolidation and measurement currency

The consolidated financial statements include the accounts of its wholly-owned subsidiary, Coreco Imaging, Inc. Intercompany balances and transactions have been eliminated on consolidation.

The Corporation uses the US dollar as its measurement and reporting currency as a result of the proportion of operating, financing and investing activities denominated in US dollars.

Guarantees

As of January 1, 2003, The Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 14, "Disclosure of Guarantees". This guideline provides assistance regarding the identification of guarantees and requires a guarantor to disclose the significant details of guarantees that have been given regardless of whether or not it will have made payments under the guarantees. The adoption of this recommendation did not require any additional disclosure in these consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents represent unrestricted cash and highly-liquid investments with a maturity of three months or less at the date of acquisition.

Inventories

Raw materials are carried at the lower of cost and replacement cost, while goods in process and finished goods are carried at the lower of cost and net realizable value. The cost of raw materials is determined on a first in, first out basis, whereas the cost of goods in process and finished goods is determined using the full cost accounting method.

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. Amortization is calculated using the following methods, term and annual rates:

Equipment including computer equipment	Straight-line	2 to 3 years
Furniture and fixtures	Declining balance	20% and 30%
Leasehold improvements	Straight-line	Over lease term

Investment

The Corporation's investment is recorded at cost since the Corporation does not exercise significant influence. The carrying amount of the investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable.

Goodwill

Goodwill is not amortized to earnings, but is subject to an annual impairment test. The Corporation performs its annual review of goodwill as of December 31 of each year. Based on the impairment test performed as of December 31, 2004, the Corporation concluded that no goodwill impairment charge was required.

Deferred financing fees

Deferred financing fees relate to costs incurred in securing a long-term debt facility and are amortized over the term the debt is available.

Revenue recognition

Revenue from product sales is recognized when persuasive evidence of an arrangement exists, the price is fixed and final delivery has occurred, and there is reasonable assurance of collection of the sales proceeds. The Corporation generally obtains verbal or written purchase authorizations from its customers for a specified amount of product at a specified price and considers delivery to have occurred at the point of shipment.

Deferred revenue is comprised of amounts received or receivable prior to the satisfaction of the revenue recognition criteria described above.

2. Significant accounting policies (continued)

Government assistance

Government assistance, comprised of grants and research tax credits, is recorded as a reduction of the related expense or the cost of the capital assets acquired.

Research and development expenditures

Research and development expenses are charged to operations in the year in which they are incurred, unless certain criteria for the deferral of development expenditures are met. The development expenditures are not considered deferrable at the present time.

Foreign currency translation

Revenue and expenses denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet dates. Other balance sheet items denominated in foreign currencies are translated at the rates of exchange at the transaction date. Translation gains and losses are included in net earnings.

Stock-based compensation

In September 2003, the CICA amended Section 3870 of the CICA Handbook, "Stock-Based Compensation and Other Stock-Based Payments", effective for fiscal years beginning on or after January 1, 2004. The amendments of the section require the adoption of the fair-value based method for all stock based awards and the recognition of an expense in the financial statements. The Corporation adopted the amendments on a prospective basis effective January 1, 2003, as permitted by the standard. The adoption of this amendment did not have any impact on the financial statements.

Prior to January 1, 2003, the Corporation recorded no compensation cost on the grant of stock options to employees (see Note 7 (c)).

Income taxes

Future income tax assets and liabilities are determined based on differences between the accounting basis and tax basis of the assets and liabilities, and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

2. Significant accounting policies (continued)

Adoption of new accounting policies

The Corporation adopted the following new Handbook Sections, none of which had any impact on the Corporation's consolidated financial statements:

(a) Handbook Section 3063, "Impairment of Long-Lived Assets": this Section provides guidance on the recognition, measurement and disclosure of the impairment of long-live assets. It replaces the write-down provisions in Section 3061 "Property, plant and equipment". The provisions of the Section require an impairment loss for a long-lived asset to be held and used to be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which its carrying amount exceeds its fair value.

(b) Handbook Section 3110, "Asset Retirement Obligations": the new standard focuses on the recognition and measurement of liabilities for legal obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets.

(c) Accounting Guideline 13, "Hedging Relationships": applicable to hedge relationships in effect in fiscal years beginning on or after July 1, 2003, which deals with the identification, documentation, designation and effectiveness of hedges and also the discontinuance of hedge accounting, but does not specify hedge accounting methods.

(d) Emerging Issues Committee Abstracts ("EIC") 141, "Revenue recognition" and EIC 142, "Revenue arrangements with Multiple Deliverables", which provide general interpretive guidance on the application of CICA Handbook section 3400 and addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities, respectively.

(in U.S. dollars)

2. Significant accounting policies (continued)

Future accounting changes

Accounting Guideline 15, "Consolidation of variable interest entities" provides clarification on the consolidation of those entities defined as "variable interest entities", when equity investors are not considered to have a controlling financial interest or they have not invested enough equity to allow the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are commonly referred to as special purpose entities. The guideline comes into effect in fiscal years beginning on or after November 1, 2004. The Corporation does not expect that the adoption of this guideline will have an impact on the consolidated financial statements.

3. Accounts receivable

	2004	2003
	$	$
Trade receivables	**3,132,238**	2,708,641
Sales tax and other receivables	**138,223**	125,920
	3,270,461	2,834,561

4. Inventories

	2004	2003
	$	$
Raw materials	**1,523,658**	1,268,218
Goods in process	**2,005,883**	1,558,685
Finished goods	**299,489**	216,174
	3,829,030	3,043,077

(in U.S. dollars)

5. Capital assets

	2004		
	Cost	Accumulated amortization	Net book value
	$	$	$
Equipment including computer equipment	**6,827,312**	**6,318,258**	**509,054**
Furniture and fixtures	**756,822**	**653,524**	**103,298**
Leasehold improvements	**215,086**	**200,868**	**14,218**
	7,799,220	**7,172,650**	**626,570**
Investment tax credits	**(116,769)**	**(79,526)**	**(37,243)**
	7,682,451	**7,093,124**	**589,327**

	2003		
	Cost	Accumulated amortization	Net book value
	$	$	$
Equipment including computer equipment	6,515,415	6,021,444	493,971
Furniture and fixtures	728,889	624,296	104,593
Leasehold improvements	215,086	183,344	31,742
	7,459,390	6,829,084	630,306
Investment tax credits	(89,344)	(69,709)	(19,635)
	7,370,046	6,759,375	610,671

(in U.S. dollars)

6. Investment, at cost

The investment is comprised of 16.4% voting ownership interest in Dipix Technology Inc. ("Dipix"), as follows:

	Number of shares	Book value
		$
Class A common (voting)	**950,993**	**650,163**
Class B common (voting)	**10,000**	**4,436**
First Preferred (non-voting)	**500,000**	**333,289**
	1,460,993	**987,888**

The principal business activities of Dipix, a private company, involve the design, manufacture and sale of computer hardware and the development and licensing of software intended for use in computerized product-inspection systems having high-speed two-dimensional and three-dimensional image processing capabilities. At December 31, 2004, cumulative dividends on First Preferred shares in arrears amounted to approximately CAN$170,000 (2003 - CAN$110,000) (see Note 14(ii)).

7. Share capital

Authorized

An unlimited number of common shares, without nominal or par value

An unlimited number of preferred shares, without nominal or par value, issuable in series with such rights and conditions as may be determined by the Board of Directors

	2004		2003	
	Number of shares	Book value	Number of shares	Book value
		$		$
Issued and outstanding:				
Common shares				
Balance, beginning of year	**7,026,572**	**10,503,902**	7,108,872	10,637,702
Repurchased under normal course issuer bid (a)	**(57,500)**	**(99,120)**	(82,300)	(133,800)
Issued for cash upon exercise of stock options	**34,000**	**122,578**	-	-
Balance, end of year	**7,003,072**	**10,527,360**	7,026,572	10,503,902

(in U.S. dollars)

7. Share capital (continued)

(a) Normal course issuer bid

In 2004, the Corporation repurchased 57,500 common shares (2003 - 82,300) under a normal course issuer bid for a total consideration of $ 264,010 (2003 - $256,876). The excess of the purchase price over book value of common shares in the amount of $164,890 (2003 - $123,076) was charged to retained earnings.

(b) Stock-option plan

The Corporation may grant options to purchase common shares to key employees, directors, officers and service-providers. The terms, number of common shares covered by each option, as well as the permitted frequency of the exercise of such options are determined by the Board of Directors. The subscription price for each share covered by an option is established by the Board of Directors, but such price shall not be lower that the fair market value at the date of grant. Options vest ratably over a period of four years and are exercisable for a maximum period of ten years after the date of grant. As at December 31, 2004, 551,112 (December 31, 2003 - 585,112) common shares have been reserved for issuance under the stock-option plan (see Note 14(i)).

The following table presents information concerning all stock options granted to the Corporation's key employees, directors, officers and service-providers:

	2004		2003	
	Number of options	Weighted average exercise price per share CAN$	Number of options	Weighted average exercise price per share CAN$
Outstanding, beginning of year	**464,500**	**5.63**	474,500	5.62
Exercised	**(34,000)**	**4.92**	-	-
Cancelled	**-**	**-**	(10,000)	4.95
Outstanding, end of year	**430,500**	**5.69**	464,500	5.63
Exercisable, end of year	**413,000**	**5.67**	388,250	5.65

(in U.S. dollars)

7. Share capital (continued)

(b) Stock-option plans (continued)

The following table summarizes information about the Corporation's outstanding stock options at December 31, 2004.

	Options outstanding			Options exercisable	
Range of exercice price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
CAN$			**CAN$**		**CAN$**
\$4.50 to \$5.35	**360,500**	**5**	**5.02**	**350,500**	**5.01**
\$7.30 to \$10.11	**70,000**	**5**	**9.14**	**62,500**	**9.36**
	430,500	**5**	**5.69**	**413,000**	**5.67**

(c) Stock-based compensation

No stock options were granted during 2004 and 2003. For stock options granted to employees in 2002, had the Corporation determined compensation cost based on the fair values at grant dates of the stock options, the earnings would have been reported at the pro forma amounts indicated below:

	2004	2003
	\$	\$
Net earnings, as reported	**2,416,747**	1,184,254
Pro forma net earnings	**2,405,767**	1,165,707
Pro forma basic and diluted earnings per share	**0.34**	0.17

The weighted-average fair value at the date of grant for the stock options issued in 2002 was \$2.53 per share. The fair value of stock options granted was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

Risk free interest rate 3.91%	
Dividend yield	Nil
Expected volatility	51%
Weighted - average expected life	3.5 years

(in U.S. dollars)

7. Share capital (continued)

(d) Rights plan

Under a Rights Agreement approved by Shareholders in May 2002, rights were issued to purchase common shares from the Corporation; each right is exercisable at a price of $75.00 for each outstanding share, subject to adjustments. The rights will be separate and traded apart from the common shares and become exercisable in the event that 20% or more of the common shares of the Corporation have been acquired or in the event of a public announcement of a take-over bid. Each right will entitle the holder to receive, upon payment of the exercise price, that number of common shares that have a market value equal to twice the exercise price. The plan is in effect until the end of the Corporation's annual shareholders' meeting to be held in 2005 or such later date as will be determined by means of a resolution reconfirming the plan at that meeting. As a result of the arrangement described in Note 14(i), the rights plan is no longer in effect.

8. Income taxes

The income tax provision reported differs from the amount computed by applying the Canadian federal and provincial rates to earnings before income taxes. The principal reasons for the difference and the related tax effects are as follows:

	2004	2003
	$	$
Earnings before income taxes	**3,136,747**	1,188,254
Expected rate	**31%**	33%
Expected income taxes	**972,392**	395,689
Adjustments		
Foreign exchange loss for income tax purposes	**(262,809)**	(430,280)
Effect of different tax rates on losses of foreign subsidiary	**-**	(21,720)
Effect of permanent and other differences	**10,417**	60,311
	720,000	4,000

(in U.S. dollars)

8. Income taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and liabilities as at December 31 are presented below:

	2004	2003
	$	$
Future income tax assets		
Current		
Accounting reserves and accruals deductible in different periods	**108,196**	170,541
Long-term		
Losses carried forward of a subsidiary	**411,231**	586,521
Capital assets	**168,929**	205,721
Research and development expenditures	**680,000**	-
Other	**172,402**	183,644
	1,432,562	975,886
Valuation allowance	**-**	(157,000)
	1,432,562	818,886
Total future income tax assets	**1,540,758**	989,427
Future income tax liabilities		
Current		
Federal investment tax credits	**215,000**	42,000
Long-term		
Federal investment tax credits	**125,000**	168,000
Total future income tax liabilities	**340,000**	210,000

(in U.S. dollars)

8. Income taxes (continued)

The Corporation has losses carried forward available to reduce US Federal and state taxable income of approximately $1,000,000 and $1,700,000, respectively, expiring at various dates until 2024 and at various dates until 2009, respectively. In addition, the Corporation has Canadian Federal investment tax credits of approximately $405,000, which can be used to reduce future income taxes payable, expiring at various dates until 2014. The benefits of the above losses carried forward and investment tax credits have been reflected in the financial statements.

9. Earnings per share

Earnings per share have been calculated based on the weighted-average number of outstanding shares during the year.

The denominator for diluted earnings per share determined using the treasury stock method is as follows:

	2004	2003
Denominator for basic earnings per share weighted-average number of shares	**7,022,135**	7,073,132
Effect of dilutive securities:		
Employee stock options	**77,719**	344
Denominator for diluted earnings per share weighted-average number of shares	**7,099,854**	7,073,476

10. Financial expenses (income)

	2004	2003
	$	$
Foreign exchange gain	**(103,780)**	(89,946)
Interest on long-term debt	**-**	27,061
Interest and bank charges	**39,800**	85,030
Other	**15,225**	19,098
	(48,755)	41,243

(in U.S. dollars)

11. Segment disclosures

(a) Geographic information

The Corporation operates in one business segment, namely computer vision products. Sales by geographical area, based on the location of the customers, are as follows:

	2004	2003
	$	$
Canada	**634,080**	560,000
United States	**11,328,000**	8,538,000
Europe	**6,596,000**	5,390,000
Asia/Pacific	**5,889,000**	4,538,000
	24,447,080	19,026,000

Capital assets and goodwill by geographic area are as follows:

	2004	2003
	$	$
Canada	**536,422**	476,915
United States	**2,747,027**	2,827,878

(b) Information about major customers

No single customer represents more than 10% of total sales for 2004 or 2003.

(in U.S. dollars)

12. Commitments and contingencies

(a) Operating lease commitments

Minimum lease payments under operating leases relating to premises are approximately as follows:

	$
2005	**1,061,000**
2006	**972,000**
2007	**219,000**
2008	**164,000**

In 2005, the Corporation entered into a sub-lease arrangement for a leased premise until December 31, 2006. The Corporation will receive sub-lease payments in the amount of $104,400 and $139,200 in 2005 and 2006, respectively.

(b) Operating credit facility

The Corporation has an operating credit facility with its bankers to a maximum of CAN$7,000,000 (US$5,824,000) of which nil was used as at December 31, 2004 and 2003. This facility, which is based on eligible accounts receivable and inventories, bears interest at the prime rate of the financial institution, is secured by a deed of moveable hypothec over the universality of the assets of the Corporation and is subject to renewal annually. Based on the Corporation's level of assets as at December 31, 2004, the maximum amount that the Corporation could have borrowed amounted to CAN$2,942,000 (US$2,448,000).

Financial covenants on the above credit facility have been respected by the Corporation as at December 31, 2004.

(c) Letter of guarantee

The Corporation has an outstanding letter of guarantee for a total amount of $200,000 which was obtained for an operating lease relating to premises.

(d) Litigation

From time to time, the Corporation is involved in various legal proceedings in the ordinary course of business. The Corporation is not currently involved in any litigation that, in management's opinion, would have a material adverse negative effect on its business, cash flows, operating results or financial condition; however, there can be no assurance that any such proceedings will not escalate or otherwise become material to the Corporation's business in the future.

13. Financial instruments

(a) Concentration of credit risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. The Corporation regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of this exposure resulting in actual loss.

Financial instruments that potentially subject the Corporation to significant concentrations of credit risk consist principally of short-term investments and accounts receivable.

The Corporation has investment policies that require placement of short-term investments in financial institutions evaluated as highly creditworthy.

Concentration of credit risk with respect to accounts receivable is limited due to the Corporation's credit evaluation process, reasonably short collection terms, the large number of customers comprising the Corporation's customer base and their dispersion among different industries and geographical locations around the world. In the normal course of business, the Corporation evaluates the financial condition of its customers on a continuing basis and reviews the creditworthiness of all new customers. The Corporation determines an allowance for doubtful accounts to reflect specific customer risks.

(b) Foreign currency risk management

A significant portion of the Corporation's expenses are denominated in Canadian dollars. This results in financial risk due to fluctuations in the value of the US dollar relative to the Canadian dollar. From time to time, the Corporation uses forward foreign exchange contracts to reduce its foreign exchange exposure on its Canadian denominated expenses.

(c) Fair value risk

Fair value estimates are made as of a specific point in time using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Corporation has determined that the carrying values of the Corporation's short-term financial assets and liabilities approximate their fair values due to the relatively short periods to maturity of these instruments. The fair values of short-term investments included in cash and cash equivalents are determined based on published market prices or quotes as of December 31, 2004 and 2003. The Corporation has not disclosed the fair value of the investment, at cost because it is not practicable to determine fair value with sufficient reliability.

14. Subsequent events

(i) On February 15, 2005, the Corporation and Dalsa Corporation ("Dalsa") entered into an arrangement, pursuant to which Dalsa will acquire all of the issued and outstanding shares of the Company, subject to certain conditions, including regulatory approvals. The transaction will be completed by way of a Plan of Arrangement (the "Arrangement").

Pursuant to the Arrangement, shareholders of Corporation will receive for each common share of the Company, at their election (and subject to pro-ration) either:

(a) 0.5207 of a Dalsa common share;

(b) CAN$10.00 in cash; or

(c) a combination of cash and DALSA common shares.

subject to a maximum of CAN$35 million in cash available for election.

In addition, and in connection with the Arrangement, on February 15, 2005, as permitted under the Corporation's stock option plan, the Board of Directors has approved a resolution to accelerate the vesting of all outstanding stock options, which will allow for the exercise of such options prior to the closing of the transaction.

(ii) On February 23, 2005, the Corporation disposed of its 500,000 First Preferred shares in Dipix Technology Inc. in exchange for cash consideration in the amount of CAN$500,000. In addition, the Corporation received dividends in the amount of CAN$174,452 which will be recorded during the first quarter of 2005.

CORPORATE INFORMATION

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STOCK INFORMATION
(as at December 31, 2004)
Stock exchange: TSX
Stock symbol: CRC
Common shares outstanding:
Basic: 7,003,072
Diluted: 7,433,572

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**Officers

Notes

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