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DMR Group Inc.
Annual Report 1989

DMR

DMR Group Inc. is a group of corporations providing information management and technology services throughout the world. It offers its clients effective business solutions aimed at securing them strategic advantages in their respective markets and sectors of activity.

Created in 1973 in Montreal, Canada, DMR Group began its international expansion in the early 1980s. It has 39 offices in eight countries on three continents and employs close to 2,000 highly-qualified and motivated people.

DMR Group's objective is to become one of the 25 leading corporations in the world in the information management and technology industry by the year 2000.

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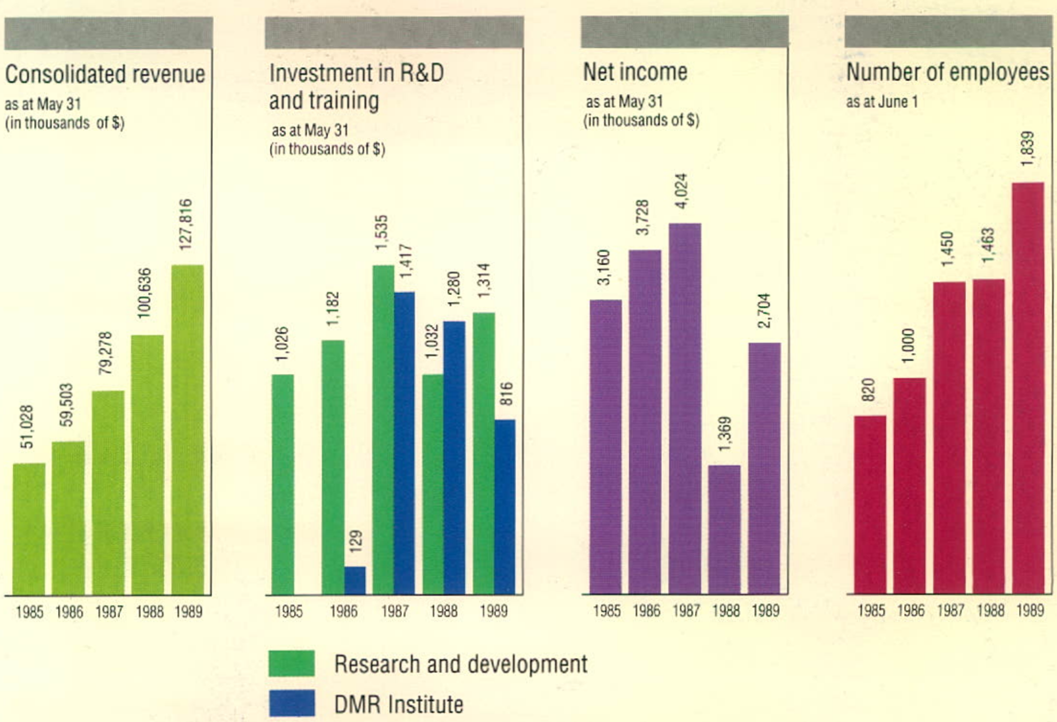
Financial Highlights

As at May 31 (in thousands, except for earnings per share and number of employees)	**1989**	1988	Variance
Consolidated revenue	**$127,816**	$100,636	27%
Operating income	**12,754**	7,983	60
Corporate investment*	**3,166**	2,973	6
Net income	**2,704**	1,369	98
Earnings per share	**0.22**	0.11	98
Weighted average of outstanding common shares	**12,555**	12,464	1
Number of employees	**1,839**	1,463	26

* Investment in research and development, in DMR Institute and in large-scale systems integration proposals.



Note:
The amounts shown in this Annual Report are expressed in Canadian dollars.

Less than three years after becoming a public company, the success of our strategy of international expansion through acquisitions is evident, and our investment in R&D has assured us a leadership position in all our markets. We intend to pursue this expansion profitably on behalf of our shareholders.

Pierre Y. Ducros, Chairman of the Board and Chief Executive Officer, and J. Alain Roy, Vice-Chairman of the Board and Executive Vice-President.

This past year was a successful year for DMR Group and we are proud to present the results to you. In the three years since we became a public company, we have reached our objective of increasing revenue by more than 25% annually, a rate well above the industry average.

Revenue increased 27% to $127.8 million in 1988-1989. This excellent performance reflects the success of our strategy to ensure international expansion through acquisitions, the continued strong business relationships we enjoy with clients, our expertise in leading-edge sectors and our penetration of new markets using the advanced methods we have perfected.

An ambitious objective

By maintaining our rate of growth, we are on our way to becoming one of the top 25 corporations world-wide in the field of information management and technology by the year 2000. The globalization of the world economy is changing the face of our industry. Successive mergers and acquisitions are restructuring the industry, forming a nucleus of large multinational corporations. We have chosen the same approach to position ourselves among the industry leaders.

To attain our objective, we have applied strategies since 1987 that have called for considerable investment. These strategies are now yielding positive results. Income was up significantly in Australia and remained high in the United Kingdom. However, further investment is needed in the United States where results were rather disappointing.

Consolidated net income reached $2.7 million, almost double the year-earlier figure; earnings per share doubled in 1989. We know that our expansion will prove very profitable in the medium term, since it rests on a solid foundation in keeping with a long-term, clearly defined vision.

Successful expansion through acquisitions

We have acquired four companies in less than three years. The first two, in Belgium and Australia, have helped us secure a strong presence in these markets. Revenue from our Belgian subsidiary increased 18% in 1989, while revenue more than doubled over last year in Australia. In both cases, profitability by far exceeded revenue growth. In November 1988, we acquired ISG Consultants Limited, a Canadian company, further strengthening our position with the federal government. Lastly, the integration into DMR Group in June 1989 of Consulting Associates Holding B.V., a leading company in the Netherlands, with offices in Switzerland and West Germany, will provide us with yet another opportunity to further develop our markets in Europe. We should point out that 63% of the increase in revenue during the past year was generated by our offices outside North America, clear confirmation of the success of our international expansion strategy.

Strategic alliances

We continued to forge alliances with various business partners; it is through such partnerships that we can meet the kind of challenges to which one company alone cannot respond. As markets evolve, such strategic alliances are proving to be more and more essential, especially when it comes to carrying out integrated systems assignments.

The merits of such a strategy were confirmed by the results of the joint venture formed in 1988 with Qantas Airways, Australia's international airline, to help both our companies penetrate the Southeast Asia market. Furthermore, our recent strategic alliance with IST-Computer Services Company, led to a major joint assignment in the field of health care in Quebec, thereby opening the door to a much larger market.

A leader in leading-edge sectors

We actively invested in R&D, in line with the policy introduced a few years ago. About two million dollars were spent during the year on research and development, half of which was used to complete the training tools related to DMR Productivity Plus, an advanced systems development method.

At the same time, we continued our research activities as part of syndicated studies. A study of unprecedented scope on the UNIX system in 1989 enabled DMR Group to successfully position itself as the leading consulting firm in North America in the field of open systems, namely transferable systems whose design and implementation meet independent supplier standards.

Highly effective personnel and corporate structure

Our expansion strategy is designed around a decentralized structure, aimed at ensuring a closer relationship with our clients in order to better meet their needs. We encourage the transfer of personnel between DMR offices in various countries or regions. In this way, we can take advantage of the synergy created by a constantly expanding staff and fully exploit the transfer of DMR's know-how, expertise and values throughout our network of offices. This past year, for example, quite a few of our Canadian employees accepted transfers to Australia to work on a number of major integrated management contracts.

At the end of the year, we revamped our operating structure to bring it in line with our market development strategy. The size and special characteristics of the US market call for a more targeted strategic approach; we therefore created two positions of President, one for the US and one for Canada. We formed a management committee to direct our operations in five European countries. As well, we structured our operations to cover the entire Asia Pacific region and serve as a springboard for our expansion into this market.

Our vision of the future

Information technology is going to develop at a very rapid pace in the coming years. Properly used, it offers significant advantages in terms of competitiveness and profitability, which can have an impact on the evolution of vital segments of the economy. We intend to continue our international expansion, consolidate our alliances and develop our expertise in leading-edge systems in order to assume fully our role as the preferred partner of a steadily expanding clientele.

We already enjoy the confidence of a diversified clientele whose loyalty is one of our main assets. We would therefore like to take this opportunity to thank our clients. As well, we would like to acknowledge the contribution of our directors and our personnel, who have made this exceptional growth possible, and our shareholders for their support throughout the year. Our shared vision of the future is a very exciting one and we are convinced that reaching the objectives DMR Group has set for itself will be to the advantage of all.

P. Y. Ducros

Pierre Y. Ducros
Chairman of the Board
and Chief Executive Officer

Alain Roy

J. Alain Roy
Vice-Chairman of the Board
and Executive Vice-President

With offices in eight countries on three continents, DMR Group is well placed to help its clients take advantage of opportunities created by free trade, Europe 1992 and the opening up of markets in Southeast Asia.

STRATEGIC INTERNATIONAL EXPANSION

During the past year, DMR Group consolidated its international network by integrating the companies acquired the previous year, maximizing the advantages it enjoys in each region and identifying new development opportunities. As part of our strategic expansion, we negotiated the acquisition of a European company operating in the Netherlands, Switzerland and West Germany.

DMR Group's international dimension is proving to be a major asset for our clients in today's increasingly global markets.

NORTH AMERICA

DMR Group's strong position in the industry in Canada, where it is regarded as the leading consulting firm in the area of information management and technology, helped it secure major contracts during the year, enabling it to reinforce its relationships with existing clients and enlarge its client base. At the same time, DMR Group made some interesting breakthroughs in the US market.

Solid positioning in the Canadian market

In Canada, our strongest growth was in the area of government services.

In the National Capital Region, revenue from contracts awarded by the Department of National Defence rose 70%, making it one of our largest accounts. Canada Post also became one of our major accounts and we have reason to believe the strong business relationship we have established with the Corporation may well lead to a productive partnership in the coming year.

In Quebec, we drew up a large number of information technology master plans for Quebec government departments and agencies. The ministère des Communications recently contracted DMR Group to design and set up an integrated communications and office automation network which will form the keystone of the government's strategic orientations in information technology.

Still in Quebec, the National Bank of Canada commissioned us to deliver an extensive systems development project in collaboration with the bank's personnel. Over the past 10 years or so, DMR Group and the National Bank of Canada have successfully worked together to complete a considerable number of assignments. About 50 DMR Group consultants will be involved in this new two-year project. We also signed a $3 million agreement with BABN Technologies Inc., a subsidiary of BCE Inc., to finalize delivery of an on-line lottery system for Loto-Québec in a Tandem environment. A strategic alliance with IST led to a major contract to develop and implement a computerized integrated clinical data system (SIDOCI) in the field of health care. As well, we continued to maintain our business relationship with Donohue Inc., a large forest products company.


Overview
of the Series

In Canada, DMR Group's strongest growth has been in the area of government services, making it the preferred partner of a number of government departments and agencies, at both the federal and provincial levels.

During the year, DMR Group Inc. (U.S.A.) successfully penetrated the US retail and distribution market; it was awarded important strategic systems planning assignments and carried out major systems development projects.

DMR Group provides a unique combination of consulting and systems development services. As a result, it has established close relationships with senior executives of major corporations, integrating its services with their corporate planning. DMR consultants are shown here meeting with George Harvey (right), President and Chief Executive Officer, CNCP Telecommunications, Toronto, Canada.

In Eastern Canada, we extended our business relationships through assignments with several public and private sector corporations. In collaboration with the personnel at Michelin Tires (Canada) Ltd., we delivered a system for the planning and follow-up of manufacturing costs; this system will be implemented at all Michelin plants in Canada and the US. We also designed industry systems for The New Brunswick Telephone Co. Ltd. to reduce customer service delays and to computerize provisioning. As part of a long-term planning project, we delivered claims management and employer rating systems for the New Brunswick Workers' Compensation Board.

Our Toronto office concluded an agreement with CNCP Telecommunications to design and implement an $8 million software system which will deliver a set of integrated real-time applications. We are in the process of developing systems for Ontario's Ministry of the Attorney General and the North York Board of Education. Strategic projects are being developed at Lloyds Bank of Canada, the Canadian Imperial Bank of Commerce and the Ontario Automobile Insurance Board. The support services we are continuing to provide Visa's Canadian authorization network (CANNET) have further enhanced our reputation in the financial services sector.

In Western Canada, we were awarded the contract to redevelop the assessment system for the Alberta Workers' Compensation Board, which also retained our services to develop a long-term technology strategy for its information management systems. After 16 months, the success of the five-year integrated management contract with Woodward's Stores Ltd. of Vancouver has exceeded expectations. At the beginning of the year, Woodward's asked DMR to amend the initial contract to include additional planning and support systems.

Penetration of the US market

The efforts undertaken by DMR Group Inc. (U.S.A.) to penetrate the US market did not quite achieve all the anticipated results. However, we did succeed in establishing a significant presence in various sectors and did make some interesting breakthroughs. We intend to carve out a significant share of this market by making the investment and effort required.

Our Boston office developed relationships with two leading retail and distribution clients, Hannaford Brothers Co. and Marshalls, which resulted in our being awarded long-range strategic systems planning assignments as well as numerous systems development projects. We developed a new alliance with the Commonwealth of Massachusetts, which assigned us the job of standardizing and implementing Productivity Plus throughout the State.

On behalf of Northern Telecom Inc., our Strategic Technology Office developed a CD-ROM-based integrated graphics and text retrieval system using long text search techniques. This system is being widely recognized as a leading achievement in the CD-ROM industry. In partnership with SDI Industries, our Strategic Technology Office also played a major role as systems integrator on three installations of automated retail warehouse distribution systems, confirming its position as a systems integration leader in the areas of sortation control and voice recognition products.

Our New York Office obtained a Productivity Plus contract with Chemical Bank. We are assisting the Bank in re-engineering a major subsystem of their retail operations and are transferring the technology to their Wall Street and Long Island development centres, which number more than 1,000 systems development employees.

We expanded our business base in the California marketplace, maintaining the solid business relationships established with the Los Angeles Department of Water and Power and Northrop Aircraft, and securing new assignments with large organizations such as Glendale Federal Bank, Transamerica Insurance, CIGNA Insurance and Southern California Gas.

AUSTRALIA

DMR Group Australia Pty. Ltd. recorded remarkable and profitable growth during the year which it attributes to the major investments made during the previous fiscal year. These include the acquisition of Datec Pty. Ltd., one of Australia's oldest and most successful computer services and software companies.

Solid relationships with key clients

DMR was awarded a number of long-range management contracts, reflecting the very privileged business relationships the company has developed with its clients and the confidence they place in our team.

For example, the Challenge Bank, one of Western Australia's largest financial services institutions, selected DMR to enter into an integrated management partnership agreement worth $14 million. This agreement followed on the heels of an interim management contract that we had successfully completed. National Mutual Corporation New Zealand Ltd. also concluded an agreement with us to develop and implement an information management and technology strategy to support the launch of a new bank in July 1989.

DMR Group Australia Pty. Ltd. recorded remarkable and profitable growth during the year. Long-term integrated management contracts will help to consolidate the productive relationships established with its clients.

European financial institutions involved in projects of unprecedented scope engaged the services of our UK subsidiary, DMR Group Limited, confirming its leadership in the area of interbank coordination and electronic funds transfer.

The past year saw the formation of a joint venture company with Qantas Information Technology Pty. Ltd. (Qantek), a wholly-owned subsidiary of Qantas Airways, Australia's international airline. The success of this project led to a number of assignments for other world-wide Qantas subsidiaries.

The calibre of the team of specialized professionals, together with the advantage conferred by our exclusive methodologies, led to DMR being awarded a number of systems delivery contracts. In addition, we signed major agreements for strategic systems and project management studies in the financial services and public sectors.

We also successfully fulfilled important mandates on behalf of the international subsidiaries of our main clients. Various assignments were delegated and managed out of New York, London, Wellington (NZ) and Portsmouth (UK), for which we drew on the services of DMR Group consultants in the United States, Great Britain and Australia.

Asia Pacific markets

DMR Group, which is already present in New Zealand as a result of its contract with National Mutual Corporation New Zealand Ltd., intends to consolidate its position in this market and expand its operations into Southeast Asia markets. Consequently, at the end of the year, we introduced a new operating structure for the region, which now covers Asia Pacific.

EUROPE

The success enjoyed by DMR Group on the European market is largely due to the expertise it has developed in specific industry sectors and services for which there is great demand, especially in the financial services industry in the United Kingdom and in systems development in Belgium.

Leading-edge expertise in the United Kingdom

DMR Group retained its lead in the financial services industry where its expertise has made it the preferred partner of many financial institutions active in major development projects. DMR Group Limited was awarded a number of important assignments during the year, some of which were of particular interest.

One such assignment was Switch, a new proprietary Debit Card Scheme launched jointly by three of Britain's largest clearing banks. DMR was appointed overall project coordinator and played a pivotal role in the planning and control of the project. The first implementation phase was successfully completed in October 1988.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The expertise of DMR Group (Belgium) S.A.-N.V. helped it secure a larger share of the information management and technology consulting market, particularly in the financial services industry, where it has established very successful business relationships.

DMR Group expanded its presence in Europe with the acquisition in June 1989 of Consulting Associates Holding B.V. of the Netherlands. A financial and administrative agreement was concluded with the company in October 1988.

In partnership with Qantas Airways, Australia's international airline, DMR Group is using the expertise developed by both companies in the transportation and communications sector in Australia to penetrate the Southeast Asia market.

DMR was awarded another major contract as part of a project initiated in 1989 by the savings banks of 11 European countries to implement an ATM cooperation program which will enable their clients to use each other's ATMs. Our services were retained to participate in the development of the overall systems architecture and functional specifications.

At the same time, we continued to expand our banking client base with new contracts from Midland Bank, National Westminster Bank, Lloyds Bank, Joint Credit Card Company, Clydesdale Irish Bank and Nationwide Anglia Building Society.

We further diversified our activities during the year and successfully penetrated the public sector market, with technology contracts from the Ministry of Defence, and we were also awarded contracts by the Inland Revenue, the UK's tax authority.

The extensive electronic funds transfer project begun two years ago on behalf of a consortium of 16 leading UK banks (EftPos UK Ltd.) continued full pace during this period. The system will be operational in September 1989.

Active presence in Belgium

DMR Group (Belgium) S.A.-N.V. maintained its advantage in the field of systems development during the year and completed numerous assignments for such prestigious companies as the Générale de Banque, Belgian Shell, Unisys Belgium S.A.-N.V. and Siemens S.A.-N.V.

The products and services developed by our specialists in health care and human resources management continued to be very well received by the market. In the hospital sector, 33 centres in Belgium are now equipped with our integrated medical act management system. In addition, integrated human resources management modules, which facilitate data capture and management of attendance and production time connected to payroll and personnel hiring management, were installed at several of our major accounts, including La Royale Belge — an insurance company, Westminster Bank, the Michelin Group and B.P. Belgium.

In the area of consulting services, the banking expertise acquired by DMR resulted in rewarding business relationships being formed with such clients as the Générale de Banque, the Bruxelles-Lambert Bank and Banque Nationale de Belgique. Productivity Plus methodology, which is seen as a totally new approach for the Belgian market, is perceived as a unique method that enables companies to apply practical information management solutions. It is gaining steadily in popularity, both in Belgium and in other European countries.

Expansion of the European network

In June 1989, DMR Group acquired Consulting Associates Holding B.V. (CA) of the Netherlands, a well-known firm of information systems consultants. CA, which is active in the Netherlands, West Germany and Switzerland, complements our operations in Belgium and the United Kingdom.

The scope of the integrated management projects undertaken for Woodward's Stores, Qantas Airways and Challenge Bank reflects our clients' confidence in DMR Group's capacity to help them meet their strategic objectives.

The mandates awarded DMR Group during the year by clients with operations world-wide clearly reflect DMR's ability to manage large-scale multinational projects.

Recognized as a world leader in interbank coordination, DMR Group is carrying out major ATM and debit card projects for European banks. It is thus maintaining the lead established as a result of major assignments undertaken on behalf of financial institutions in Canada.

SUCCESSFUL PARTNERSHIPS

Our solid reputation is based on our many accomplishments at the international level. More and more clients are seeking global information technology solutions and want to work in partnership with a company able to assist them in finding and implementing such solutions. To meet their needs, we offer them innovative integrated management and systems integration services. Moreover, we are convinced that demand for these kinds of services can only increase during the next decade, and we intend to be well-positioned to supply them.

Integrated management agreements

Three major projects stand out among the integrated management projects currently under way: in each case, the agreement is partnership-based, with the focus on attaining the objectives set by the client.

Woodward's Stores Ltd., Western Canada's largest chain of department stores, signed an exclusive five-year contract in 1987 with DMR Group, making our firm responsible for managing and developing the company's computer applications. The main objective was to improve productivity and competitiveness and, indeed, performance indicators during the year demonstrated that this objective had been exceeded for the first phase of this assignment.

Qantas Airways Pty. Ltd. chose DMR as their partner in forming Qadrant International Pty. Ltd. This is a joint venture to provide professional services to Qantas' subsidiary, Qantek, which specializes in information technology. The initial two-year mandate is part of an integrated management program aimed at increasing the efficiency and effectiveness of Qantas' information systems and key applications.

Challenge Bank, one of Western Australia's largest financial services institutions, also concluded an integrated management partnership agreement with DMR. The scope of this project marks a first for us in that it includes managing the computer operations department, and covers the full range of information systems services.

International accomplishments

The extent of DMR Group's network and its proven track record in carrying out projects that are international in scope make it ideally suited to meet the needs of large multinationals.

National Mutual Group, an international financial services institution based in Australia, is one of DMR Group's long-standing clients. During the year, we concluded an important agreement with one of its subsidiaries, National Mutual Corporation New Zealand Ltd., to support the launch of a new bank in New Zealand. Other subsidiaries, including NM Financial of Portsmouth and NM Integrity of New York, also called on the services of our offices.

Consortiums and interest groups

We joined forces with several financial institutions to develop projects of unprecedented complexity and scope, which confirm our position as world leader in the area of interbank coordination. We are currently working on five projects involving banks in the United Kingdom, Ireland and 11 European countries.

A consortium of three of Britain's leading banks retained the services of DMR to coordinate the "Mint" project, which will enable the banks' 12 million clients to access the ATMs of all consortium members.

DMR is playing a key role in coordinating Switch Card Services Ltd., a new proprietary debit card launched by Midland, National Westminster and the Royal Bank of Scotland, three of the largest clearing banks in the UK. This project involves implementing their EftPos system to support more than 10 million debit cards at over 40,000 point-of-sale terminals.

Development of leading-edge technologies

A number of major contracts awarded during the year will enable us to develop leading-edge technologies in response to our clients' needs.

CNCP Telecommunications awarded us a contract to create and implement a leading-edge software system to deliver a set of integrated real-time applications to analyse service performance, establish the cost-effectiveness of operations and orient the company towards a more competitive position.

The Department of National Defence, one of our largest accounts in Canada, has enabled us, through its mandates, to develop unique expertise in command, control and communications (C^3) systems in the defence industry. We have developed analysis capability for secure information systems for the Department, and also made our mark in the analysis and development of configuration management systems.

Quebec's ministère des Communications recently chose DMR Group to set up an integrated network designed to provide communications and office automation facilities to all Quebec government departments. This network will complement local networks and will link up server centres, computers and some 27,000 micro-computers or terminals in 200 cities and towns in Quebec. Its telecommunications infrastructure will facilitate the deployment of a number of value-added services.

Relationships with suppliers

The management of large-scale information technology projects would not be possible without the close ties that exist between DMR Group and its suppliers. We seek to establish non-exclusive alliances with our suppliers and undertake major projects for a number of leading computer manufacturers.

IBM Canada Limited and DMR Group signed an agreement whereby we will assist IBM in implementing large-system application development products including DB2.

Tandem Computers of Canada Ltd., a wholly-owned subsidiary of Tandem Computers of Cupertino, California, a major world-wide manufacturer of computer equipment, has signed a letter of intent and is negotiating the terms of a final agreement to have DMR develop a strategic software product. This software, aimed initially at the financial industry, will provide Tandem clients with new capabilities enabling applications that are written on different manufacturers' hardware to communicate in a consistent and secure manner. The result will be the formation of an integrated on-line banking environment.

DMR Group established non-exclusive alliances with its suppliers and undertook major projects with computer manufacturers, further strengthening its ties with them to the advantage of their respective clients.

After three years of intensive research, DMR Productivity Plus methodology was successfully launched in February 1988; its innovative approach has generated a great deal of interest.

The major study carried out by DMR Group on the UNIX system in Canada confirmed our position as the leading consulting firm in North America in the field of open systems.

TECHNOLOGICAL ADVANCES

Research and development are the key to DMR Group's future. As industry leader, we have developed innovative concepts, some of which now serve as models world-wide. We also reaffirmed our leadership in leading-edge technologies with a major study on the UNIX system.

A fourth generation development methodology

DMR Productivity Plus methodology, launched in February 1988 after three years of intensive research, is based on an innovative approach that combines methodology, techniques and systems delivery tools. It has transformed the total system delivery process from invisible activities to concrete measurable products. Productivity Plus stresses goal-oriented team management, integration of data and process modeling, as well as very active user participation.

During the fiscal year just ended, DMR Group invested more than one million dollars to develop this method. We concentrated on delivering the training courses essential to its implementation and also created an expert system that allows us to measure systems development productivity.

DMR Institute, which was set up in 1986, is responsible for providing the training for Productivity Plus. During the year, the Institute organized and coordinated a full series of courses covering all aspects of this methodology. Training was given at three DMR centres in North America, Europe and Australia. DMR employees received the equivalent of 2,300 person-days of courses, while clients received 9,600 person-days.

At year-end, Productivity Plus was being introduced at a rapid rate. Sixty-five clients had already become licensed users, including the Massachusetts Institute of Technology, CNCP Telecommunications, Northern Telecom, The Toronto Stock Exchange, Quebec's ministère de la Main-d'oeuvre et de la Sécurité du revenu, Supply and Services Canada and Banque Nationale de Belgique.

During this same period, we completed Strategy Plus, our strategic planning guide, and began an ambitious project to integrate information technology management methods, including software tools, standards and training instruments.

A study of unprecedented scope on UNIX

In 1989, our Emerging Technologies Consulting Group directed a study on the UNIX-based systems, the largest study of its kind ever undertaken in Canada. The study was part of the *usr/group/cdn*'s research program and was sponsored by a group of 35 private and public sector users and distributors that generate 95% of the computer industry's revenue in Canada; the participation of 545 other companies was required to complete the required data. It revealed a fundamental change in the use of information technology and of its market, where open systems play a key role.

This study confirmed DMR Group's position as the leading consulting firm in North America in the field of open systems. The success of this study resulted in *usr/group*, the largest UNIX association in the US, and DMR Group co-sponsoring an even more extensive study of US companies.

Board of Directors

Pierre Y. Ducros †
Chairman of the Board and
Chief Executive Officer
DMR Group Inc.

J. Alain Roy *
Vice-Chairman of the Board,
Executive Vice-President
and Secretary
DMR Group Inc.

Bernard G. Côté *
President and
Chief Executive Officer
StanMont Inc.

Jacques A. Drouin †
President and
Chief Operating Officer
The Laurentian Group
Corporation

Jean-Paul Gourdeau *
Chairman of the Board
The SNC Group

Bertin F. Nadeau †
Chairman of the Board,
President and
Chief Executive Officer
Unigesco Inc.

John F. Ward
Deputy Chief Officer and
Chief Operating Officer
Qantas Airways Ltd.

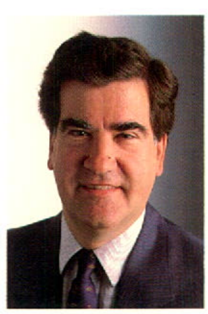
* Audit Committee Members

† Human Resources Committee Members

The members of the Board of Directors of DMR Group shown here at a Board meeting held in Sydney, Australia, on April 17, 1989. Seated: Messrs. Roy and Ducros. Standing, left to right: Messrs. Drouin, Nadeau, Côté, Gourdeau and Ward.

Senior Management

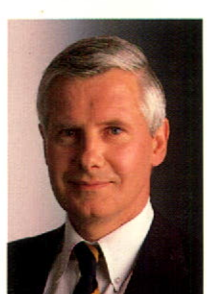
Pierre Y. Ducros **
Chairman of the
Board and Chief
Executive Officer



J. Alain Roy **
Vice-Chairman of
the Board,
Executive
Vice-President
and Secretary

Jean-Marc Proulx
Vice-President,
Research and
Development

Pierre L. Roy **
Vice-President
and Chief Financial
Officer



Barry G. Hull **
President,
Systems Integration
Division

Pierre G. Robitaille **
Vice-President,
Human Resources

Serge Meilleur **
President,
DMR Canada

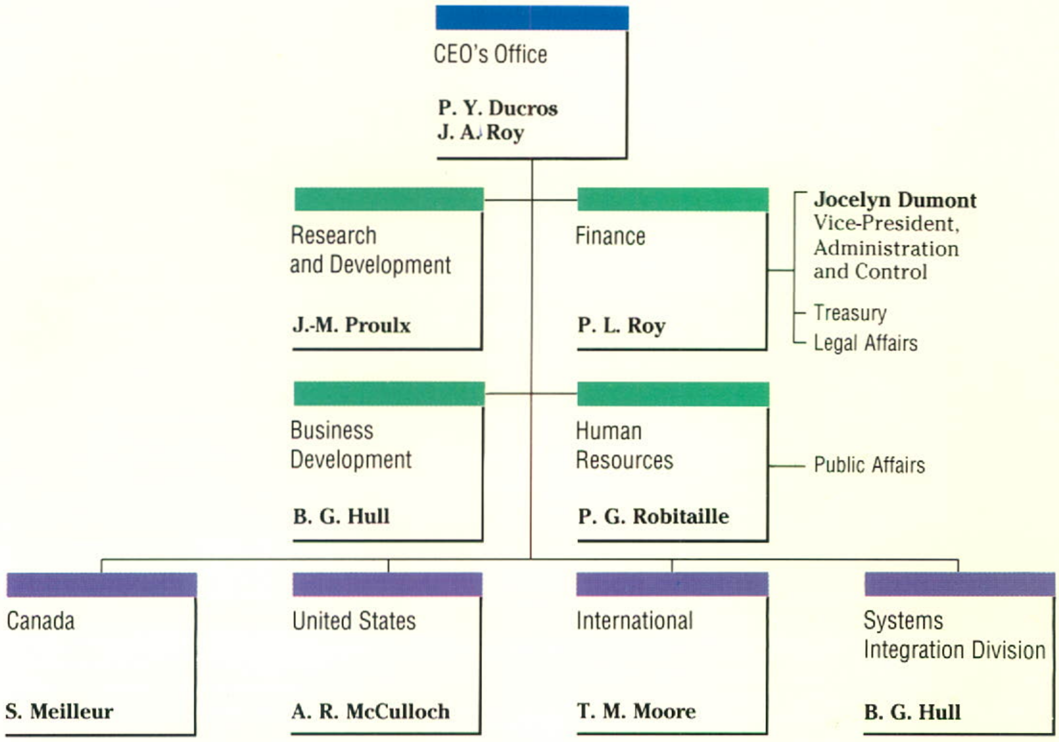
A. Ronald McCulloch **
President,
DMR U.S.A.

Thomas M. Moore **
President,
International
Division

** Management Committee Members

Corporate Structure

DMR Group's expansion is supported by a flexible and decentralized structure, based on a dynamic and stimulating corporate culture that stresses four basic values: respect for the individual, quality service to clients, professional excellence and profitability. These values are clearly evident at every level of DMR's operations.



Michel Benoit
Vice-President,
Montreal Region

Micheline Bouchard
Vice-President,
Marketing

Jim Kranias
Vice-President,
Ottawa Region

Denis Laroche
Vice-President,
Eastern Region

Pat McLagan
Vice-President,
Toronto Region

Phil Tinevez
Vice-President,
Western Region

David Clark
General Manager,
Australia

Michel Guay
General Manager,
European Group
Services

José Hallard
Managing Director,
Belgium

Michel Lasserre du Rozel
Managing Director,
Switzerland

David Major
General Manager,
Asia Pacific

Jean-Louis Melle
General Manager,
European Consulting
Services

Kevin Rusbridge
Director of Finance,
Australia and
Asia Pacific

Carel van Well Groeneveld
General Manager,
European Products

In terms of revenue, DMR Group once again outperformed the computer services industry as a whole in 1988-1989. Net income almost doubled over the previous year, making these results most encouraging. We are on the right track to reaching our profitability objectives in the medium term.

Increase in consolidated revenue

Consolidated revenue for the year was up 27% at $127.8 million. We thus maintained the rate of growth set three years ago, when we chose to strengthen our international expansion.

This growth rests on solid foundations. We continued to diversify and expand our client base during the year and effected promising breakthroughs into new sectors. This has given our company a more stable positioning in the marketplace. Our large-client approach proved successful, with half of our 1988-1989 revenue generated by 33 of our major clients, most of whom awarded us more than one assignment.

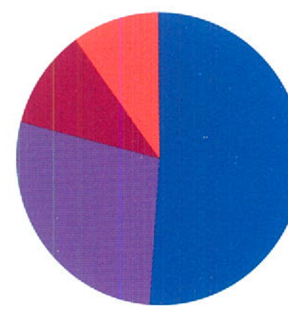
At the same time, the value of our contracts continued to rise, averaging about one million dollars each. The marked rise in the value of the contracts awarded reflects the increased investment companies are making in information technology. We expect this trend to strengthen in the coming years.

The confidence many large corporations have placed in us and the scope of our assignments further confirmed the success of our market approach, which combines consulting and systems development services. These services generated 79% of our revenue, with systems development accounting for 51% and consulting for 28%. Our integrated approach enabled us to maintain the close relationships we have established with the senior management of these corporations and to integrate our services with their corporate planning.

An analysis of our consolidated revenue shows that our income stream was derived from a number of industry sectors as well as a broad cross-section of clients. We were active in many sectors during the year and retained our lead in a number of areas. One such area was the financial services industry, where we are considered a world leader in our field, and which generated 27% of our revenue, a marked increase over the previous year; the various levels of government were a close second, with 26% of revenue. We also made large gains among computer equipment manufacturers.

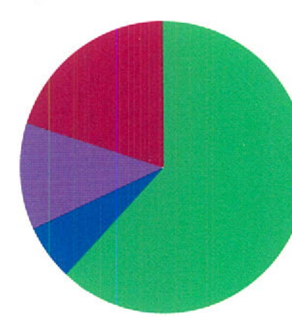
In terms of our geographic segments, demand increased more quickly outside North America. Revenue from our offices in Europe and Australia rose 67% to reach $41.6 million. These offices generated 32% of our consolidated revenue, proving just how effective our international expansion strategy has been.

Consolidated revenue by service



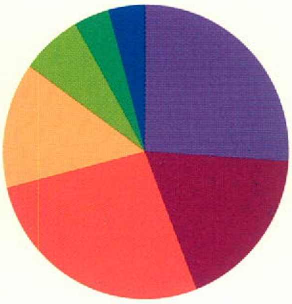
- Systems development: 51%
- Consulting: 28%
- Technical services: 11%
- Training and others: 10%

Consolidated revenue by region



- Canada: 62%
- United States: 6%
- Europe: 12%
- Australia: 20%

Consolidated revenue by economic sector



- Government: 26%
- Manufacturing-Distribution: 18%
- Finance-Insurance-Banking: 27%
- Transportation-Communications: 14%
- Construction-Real estate and others: 7%
- Energy-Mines-Forest products-Agriculture: 4%
- Health-Social services-Education: 4%

In Canada, consolidated revenue was up 16%, from $67.8 million to $78.7 million, and was mainly attributable to the large number of major assignments awarded by government services and the transportation and communications sector.

We did not, however, achieve the anticipated results in the US. Despite a number of promising breakthroughs, revenue was down 11% from $9.5 million to $8.4 million over the previous year. We are presently increasing our efforts in this market.

For its part, our Australian subsidiary recorded spectacular revenue growth; revenue was up 116% at $26.1 million, compared with $12.1 million for the previous year. The integration of a company acquired two years ago and major assignments in the transportation and communications sector, and in the financial services industry, accounted for this increase.

In Europe, DMR maintained the solid market position it has established, notably in the financial services industry, and expanded its client base; DMR's UK and Belgian subsidiaries posted revenue of $15.5 million, up 21% from $12.8 million in the previous year.

Higher operating income

As at May 31, 1989, operating income was $12.8 million, compared with $8.0 million for the previous year.

Operating income was up 14% in Canada at $8.3 million, and 69% in Europe at $2.7 million. Our Australian operations accounted for the largest share of the increase in consolidated operating income, generating $3.7 million compared with $163,000 the previous year. The situation deteriorated in the United States where we posted an operating loss of $1.7 million.

Higher net income

DMR Group recorded a significant increase in net income for the year ended May 31, 1989. Net income, in fact, almost doubled from $1.4 million to $2.7 million. This increase augurs well; nevertheless, we are aware that it still fell short of our objectives. We are committed to increasing income to reach our profitability objectives in the medium term.

Among the factors that affected net income, two stand out. First, we incurred a loss of $774,000, largely due to unrealized losses as a result of the Canadian dollar's appreciation against the currencies of the major countries with which we do business. Second, our effective tax rate for fiscal 1989 was 47.9% as against 40.4% the previous year. The higher rate was mainly due to the fact that the loss incurred by our US subsidiary could not be recognized as a tax benefit for accounting purposes. Our US company will be able to claim tax benefits once it is again profitable.

Sound financial health

Our rapid rate of growth and the level of our operating income enabled us to continue to invest in R&D, training and systems integration, areas in which we allocated $3.2 million, or 6.5% more than in the previous year. This reflects our desire to invest in the future and to carve out a large share of new and promising markets. It also reflects our sound financial health, which makes such investment possible.

Other disbursements during the year included a short-term $1.7 million loan to Consulting Associates Holding B.V., granted prior to our acquiring the company in June 1989. Capital expenditures for the year totalled $3.7 million, largely for the purchase of furniture and data processing equipment. Long-term debt was $1.3 million at year-end, consisting mainly of capital lease obligations and loans to purchase office space in Belgium.

The volume of outstanding accounts receivable improved during the year. As at May 31, 1989, accounts receivable stood at $22.7 million, or 17.8% of consolidated revenue, compared with 19.5% for the previous year. Working capital at year-end was $10.1 million. Shareholders' equity was up 12%, from $28.2 million to $31.5 million over the previous year.

Orders

As at May 31, 1989, DMR Group orders totalled over $85 million, or 66% of consolidated revenue, up significantly from 60% a year earlier.

Increase in personnel

Total DMR complement increased 26%, for a total of 1,839 employees. The largest increase was in Australia where the number of employees rose to 353, following the formation of a joint venture and the awarding of major integrated management contracts. We currently have 1,240 employees in Canada, 92 in the US and 154 in Europe. In June 1989, total complement was 1,992 following the integration of 153 employees of Consulting Associates Holding B.V.

The quality of DMR Group's personnel is a key factor in its growth and its corporate culture comprises one of its main strengths. We are continually safeguarding and strengthening these assets.

Auditors' Report

To the Shareholders of DMR Group Inc.

We have examined the consolidated balance sheet of DMR Group Inc. as at May 31, 1989 and the consolidated statements of income and retained earnings and changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at May 31, 1989 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney

Thorne Ernst & Whinney
June 29, 1989

Consolidated Balance Sheet

May 31 (in thousands of dollars)	1989	1988
Assets		
Current assets		
Cash and short-term deposits, at cost	**$ 5,410**	$ 886
Accounts receivable	**22,719**	19,653
Work in progress	**1,917**	842
Income taxes receivable	**—**	682
Deposits and prepaid expenses	**1,042**	1,019
	31,088	23,082
Loans and note receivable (Note 2)	**2,145**	—
Development costs	**1,711**	1,562
Fixed assets (Note 3)	**8,262**	6,522
Investments (Note 4)	**2,549**	2,500
Goodwill, at cost less amortization	**8,378**	8,522
	$54,133	$42,188

Liabilities and Shareholders' equity		
Current liabilities		
Bank loans	**$ 1,761**	$ —
Accounts payable and accruals	**13,724**	11,268
Income taxes payable	**3,213**	—
Deferred revenues	**1,906**	446
Current portion of long-term debt (Note 6)	**405**	306
	21,009	12,020
Long-term debt (Note 6)	**1,310**	958
Deferred income taxes	**294**	991
Shareholders' equity		
Capital stock (Note 7)	**23,890**	23,293
Retained earnings	**7,630**	4,926
	31,520	28,219
Commitments and contingencies (Notes 8 and 12)		
	$54,133	$42,188

Approved by the Board:

Pierre Y. Ducros, Director

Bernard G. Côté, Director

Consolidated Statement of Income and Retained Earnings

Year ended May 31 (in thousands of dollars, except for earnings per share)	**1989**	1988
Revenues	**$127,816**	$100,636
Expenses		
General and administrative	**119,157**	96,873
Depreciation of fixed assets	**1,867**	1,237
Amortization of goodwill	**476**	426
Amortization and write-off of development costs	**728**	540
Research and development costs	**437**	214
Interest on long-term debt	**142**	51
	122,807	99,341
Other income	**182**	1,003
Income before income taxes	**5,191**	2,298
Income taxes (Note 9)	**2,487**	929
Net income	**$ 2,704**	$ 1,369
Retained earnings at beginning of year	**$ 4,926**	$ 3,557
Retained earnings at end of year	**$ 7,630**	$ 4,926
Earnings per share (Note 10)	**$ 0.22**	$ 0.11
Diluted earnings per share (Note 10)	**$ 0.21**	

Consolidated Statement of Changes in Cash Resources

Year ended May 31 (in thousands of dollars)	1989	1988
Cash provided by (used for):		
Operations		
Net income	$ 2,704	$ 1,369
Charges to income not affecting liquidities		
Amortization of goodwill	476	426
Depreciation of fixed assets	1,867	1,237
Amortization and write-off of development costs	728	540
Deferred income taxes	(672)	(147)
Loss on disposal of fixed assets	11	11
	5,114	3,436
Changes in non-cash components of working capital	3,938	(1,537)
	9,052	1,899
Financing		
Long-term debt	859	983
Reduction of long-term debt	(408)	(372)
Issue of shares	597	1,246
	1,048	1,857
Investments		
Proceeds on disposal of fixed assets	100	27
Additions to fixed assets	(3,702)	(3,958)
Goodwill	—	(5,744)
Development costs	(877)	(818)
Reclassification of an investment from current to non-current	—	(2,000)
Acquisition of an investment	(49)	(500)
Acquisition of subsidiaries		
Fixed assets	(16)	—
Working capital excluding liquidities	(316)	—
Excess of the purchase price of net assets acquired over cost	(332)	—
	(664)	—
Loans and note receivable	(2,145)	—
	(7,337)	(12,993)
Increase (decrease) in liquidities	2,763	(9,237)
Liquidities at beginning of year	886	10,123
Liquidities at end of year	$ 3,649	$ 886

The liquidities include cash, short-term investments and bank loans.

Year ended May 31, 1989

1. Summary of significant accounting policies

Consolidation

The financial statements include the accounts of the Company, its Australian Unit Trust owned at 100% and the following subsidiaries:

DMR Group Inc. (U.S.A.)	100%	
DMR UK Limited	100%	
DMR Group (Belgium) S.A.-N.V.	88.9%	
DMR Group (Europe) Inc.	100%	This Company owns 11.1% of DMR Group (Belgium) S.A.-N.V.

Upon consolidation, all intercompany accounts and transactions were eliminated.

Fixed assets

Fixed assets are stated at cost. Depreciation has been provided on the declining balance and the straight-line methods for the furniture and equipment and data processing equipment. Amortization has been provided by the straight-line method for the buildings, leasehold improvements and vehicles. The annual rates are as follows:

Buildings	3%
Data processing equipment	20 to 33 ⅓ %
Furniture and equipment	10 to 20%
Leasehold improvements	
Unexpired term of the lease plus one renewal period	
Vehicles	25%

Revenues and operating costs

The Company records its revenues on the basis of percentage of completion. The work in progress is stated at the lower of cost and net realizable value. Any estimated losses on work in progress are fully recognized when identified. Deferred revenues are recorded when invoicing exceeds recognized revenues at year-end.

Income taxes

The deferred income tax method is used. Deferred income taxes arise from timing differences between financial and tax reporting, and relate principally to depreciation, deferred development costs and to the cash basis method, which was used for tax reporting in the United States before June 1, 1987.

Development costs

Costs, including an allocation of overhead, which relate to the development of software, methodologies and training programs, are capitalized when they are expected to be sold. It is the Company's practice to charge these costs to current income commencing in the year of development completion, based on projected unit sales over a period of no longer than three years or when it is determined that the costs will not be recovered from related future revenue.

The development cost balance shown in the balance sheet is presented net of accumulated amortization.

Goodwill

Goodwill is represented by the excess of the purchase price of net assets acquired over cost through acquisitions of subsidiaries and some assets.

Goodwill is stated at cost and is amortized on the straight-line basis over periods of 5 to 25 years.

2. Loans and note receivable

(in thousands of dollars)	1989	1988
Loans bearing interest at annual rates varying from 7.75% to 9.01%, repayable after June 1, 1990 (3,240,000 Dutch Guilders)	$1,755	$ —
Note receivable from a shareholder in connection with the Executive Long-Term Incentive Plan, without interest, repayable in May 1994	390	—
	$2,145	$ —

3. Fixed assets

(in thousands of dollars)			1989	1988
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Buildings	$ 1,077	$ 73	$1,004	$ 453
Furniture and equipment	9,551	4,657	4,894	3,865
Leasehold improvements	2,143	852	1,291	1,258
Furniture and equipment under capital leases	1,174	367	807	778
Vehicles	343	77	266	168
	$14,288	$6,026	$8,262	$6,522

4. Investments

(in thousands of dollars)	1989	1988
Société d'Investissement Tremplin 2000 Inc., at cost: 5,000 Class A shares, representing 2.3% of all shares issued	$ 500	$ 500
Canadian Imperial Bank of Commerce, at cost: 20,000 Preferred shares Class A, Series 4, dividends varying from 65% to 71% of prime rate (Market value of $1,810 and $1,705 as at May 31, 1989 and 1988 respectively)	2,000	2,000
Joint venture with Qantas Technology Services, at cost	49	—
	$2,549	$2,500

5. Acquisitions

During the year, the Company made some acquisitions for a total cash consideration of $532,000.

These acquisitions were accounted for by the purchase method. Goodwill resulting from these acquisitions is amortized over a period of five years.

6. Long-term debt

(in thousands of dollars)		**1989**		1988
	Current Portion	Total	Current Portion	Total
Loans				
Loan without interest, maturing from January 1990 to May 1991	**$ 87**	**$ 175**	$ 96	$ 271
Loans on buildings, bearing interest at annual rates varying from 8.23% to 8.5%, repayable in Belgian Francs by quarterly instalments varying from $10,200 (353,000 BF) to $14,467 (500,000 BF) maturing from March 1992 to June 1999	**99**	**649**	49	193
	186	**824**	145	464
Capital lease obligations				
Obligations for furniture and equipment, bearing interest at rates varying from 10.0% to 16.6%, repayable by monthly instalments varying from $210 to $7,836 (principal and interest), maturing from December 1989 to December 1993	**219**	**891**	161	800
	$405	**1,715**	$306	1,264
Less current portion		**405**		306
		$1,310		$ 958

Future minimum payments for each of the next five years are as follows (in thousands of dollars):

	Capital Lease Obligations	Loans
1990	$ 322	$186
1991	274	186
1992	252	99
1993	297	58
1994	8	58
	1,153	
Less interest included in these payments	262	
	$ 891	

7. Capital stock

Authorized:

- an unlimited number of Class A subordinate voting shares without par value, convertible with some conditions, into Class B shares with only one voting right per share;
- a maximum of 6,656,272 Class B shares without par value, 10 votes per share, convertible into Class A subordinate voting shares at the holder's option subject to the escrow agreement dated September 24, 1986;
- an unlimited number of first rank preferred shares, without par value, whose rights and privileges will be fixed before the issuance;
- an unlimited number of second rank preferred shares, without par value, whose rights and privileges will be fixed before the issuance.

7. Capital stock (continued)

(in thousands of dollars)	**1989**	1988
Outstanding:		
• 6,062,283 Class A subordinate voting shares (5,292,207 in 1988)	**$22,708**	$22,013
• 6,656,272 Class B shares (7,205,191 in 1988)	**1,182**	1,280
	$23,890	$23,293

1989 Share transactions

During the year, the Company issued 221,157 Class A subordinate voting shares (166,039 in 1988) for a cash consideration of $596,297 ($290,113 in cash and $956,500 in exchange for some assets and clientele in 1988).

Also during the year, 548,919 Class B shares (864,581 in 1988) were converted into the same number of Class A subordinate voting shares. The assigned value of these converted shares is $97,874 ($153,549 in 1988).

Reserved shares

In compliance with the stock purchase plan for executives and senior employees, 497,442 (284,375 in 1988) Class A subordinate voting shares were reserved. These options may be exercised during the coming five years, subject to certain annual maximums and at prices equivalent to the closing stock market value at the day of issuance.

8. Lease commitments

As at May 31, 1989, the future minimum operating lease commitments for office space and equipment are approximately $33,600,000. Rental payments for each of the next five years are as follows (in thousands of dollars):

1990	$4,898
1991	5,074
1992	4,326
1993	3,802
1994	3,587

9. Income taxes

(in thousands of dollars)	**1989**	1988
Current	**$3,133**	$1,045
Deferred (credits)	**(646)**	(116)
	$2,487	$ 929

9. Income taxes (continued)

The effective tax rate is different from the statutory rate for the following reasons:

	1989	1988
Statutory rate	**40.1%**	42.4%
Reconciliation items:		
Active business income	**—**	(1.4)
Manufacturing and processing deductions	**—**	(1.9)
Amortization of goodwill	**1.8**	2.2
Non-recognized tax benefit for financial statement purposes resulting from foreign subsidiary loss	**5.8**	—
Other	**0.2**	(0.9)
Effective rate	**47.9%**	40.4%

One of the foreign subsidiaries has operating losses of approximately $832,000 which have not been recognized for accounting purposes. Losses for an amount of $1,017,600 are available to reduce future years' taxable income and expire in 2004.

10. Earnings per share

The earnings per share have been computed using the weighted average number of shares outstanding during the year: 12,555,205 shares (12,464,011 shares in 1988). The diluted earnings per share have been computed assuming the exercise of stock options outstanding as at May 31, 1989.

11. Segmented information

Activity sectors

The Company generates its revenues from the following sectors: information management, office automation, telecommunications, robotics and systems integration.

The majority of intercompany revenues are billed at the same rates as if they were with third parties.

Geographic segments

The results per geographic segment are as follows (in thousands of dollars):

	Canada		United States		Australia		Europe		Eliminations		Total	
	1989	1988	**1989**	1988	**1989**	1988	**1989**	1988	**1989**	1988	**1989**	1988
Revenues	**$78,597**	$67,057	**$ 7,833**	$8,864	**$26,041**	$12,009	**$15,345**	$12,706	**$ —**	$ —	**$127,816**	$100,636
Intercompany revenues	**128**	767	**610**	589	**48**	80	**125**	122	**(911)**	(1,558)	**—**	—
	$78,725	$67,824	**$ 8,443**	$9,453	**$26,089**	$12,089	**$15,470**	$12,828	**$ (911)**	$ (1,558)	**$127,816**	$100,636
Operating profit (loss) before the following items:	**$ 8,278**	$ 7,248	**$(1,742)**	$ (525)	**$ 3,713**	$ 163	**$ 2,670**	$ 1,577	**$ (165)**	$ (480)	**$ 12,754**	$ 7,983
Research and development costs[1]											**1,165**	754
Training centre—net (DMR Institute)											**816**	1,280
Costs of the Systems Integration Division											**1,036**	661
General corporate expenses											**3,772**	3,218
Loss (gain) on foreign exchange											**774**	(228)
Income taxes											**2,487**	929
Net income											**$ 2,704**	$ 1,369
Total assets	**$45,486**	$37,942	**$ 3,526**	$2,532	**$15,154**	$ 9,416	**$ 9,452**	$ 5,686	**$(19,485)**	$(13,388)	**$ 54,133**	$ 42,188

(1) Research and development costs amount to $1,314 ($1,032 in 1988), to which $728 ($540 in 1988) is added concerning the amortization and write-off of development costs. Development costs capitalized during the year amount to $877 ($818 in 1988).

12. Contingencies

The Company was reviewed by Revenue Canada for its fiscal years 1982 to 1988 with regard to manufacturing and processing deductions claimed. As of the date of the Auditors' Report, no assessments have been issued.

The Company's management and its legal advisers made all necessary representations to Revenue Canada in order to demonstrate that the Company may claim such deductions. The Company is presently negotiating a potential assessment.

The final outcome cannot be determined. Accordingly, no provision has been recorded in the financial statements regarding the possibility of additional income taxes. Settlements will be recorded as a prior period adjustment.

In addition, during 1988, the Company filed a court action against a customer for cancellation of a contractual obligation and claimed a sum of $1,553,367 for amounts due and damages. The same customer instituted a counteraction against the Company, claiming damages and breach of contract for an amount of $4,100,000. As at the date of the Auditors' Report, management and counsel are unable to provide estimates on the outcome. Settlements, if any, concerning this contingency, will be recorded as a prior period adjustment.

13. Subsequent event

The Company has made an agreement to acquire all the outstanding shares of Consulting Associates Holding B.V. of the Netherlands as of June 1, 1989. The acquisition price is fixed at $2,710,000 (5,000,000 Guilders) adjusted by the consolidated net book value based on the audited financial statements as at May 31, 1989.

A first amount of $373,000 (700,000 Guilders) was paid on June 5, 1989. The final amount will be settled at the closing meeting scheduled for August 1989.

14. Reclassification

Certain accounts from the preceding year have been reclassified to be in conformity with the accounts of the current year.

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General Information

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Stock Exchange Listing

DMR Group Inc. is listed on The Montreal Exchange under the symbol DR.A and The Toronto Stock Exchange under the symbol DR.

Transfer Agent and Registrar

Montreal Trust of Canada
Montreal, Toronto

Annual Meeting

The annual meeting of the shareholders will be held on Wednesday, September 20, 1989, at 11:00 a.m. (Eastern daylight saving time) in the Oval Room of the Ritz-Carlton Hotel, 1228 Sherbrooke Street West, Montreal.

Si vous préférez recevoir ce rapport en français, veuillez en faire la demande au service des affaires publiques.