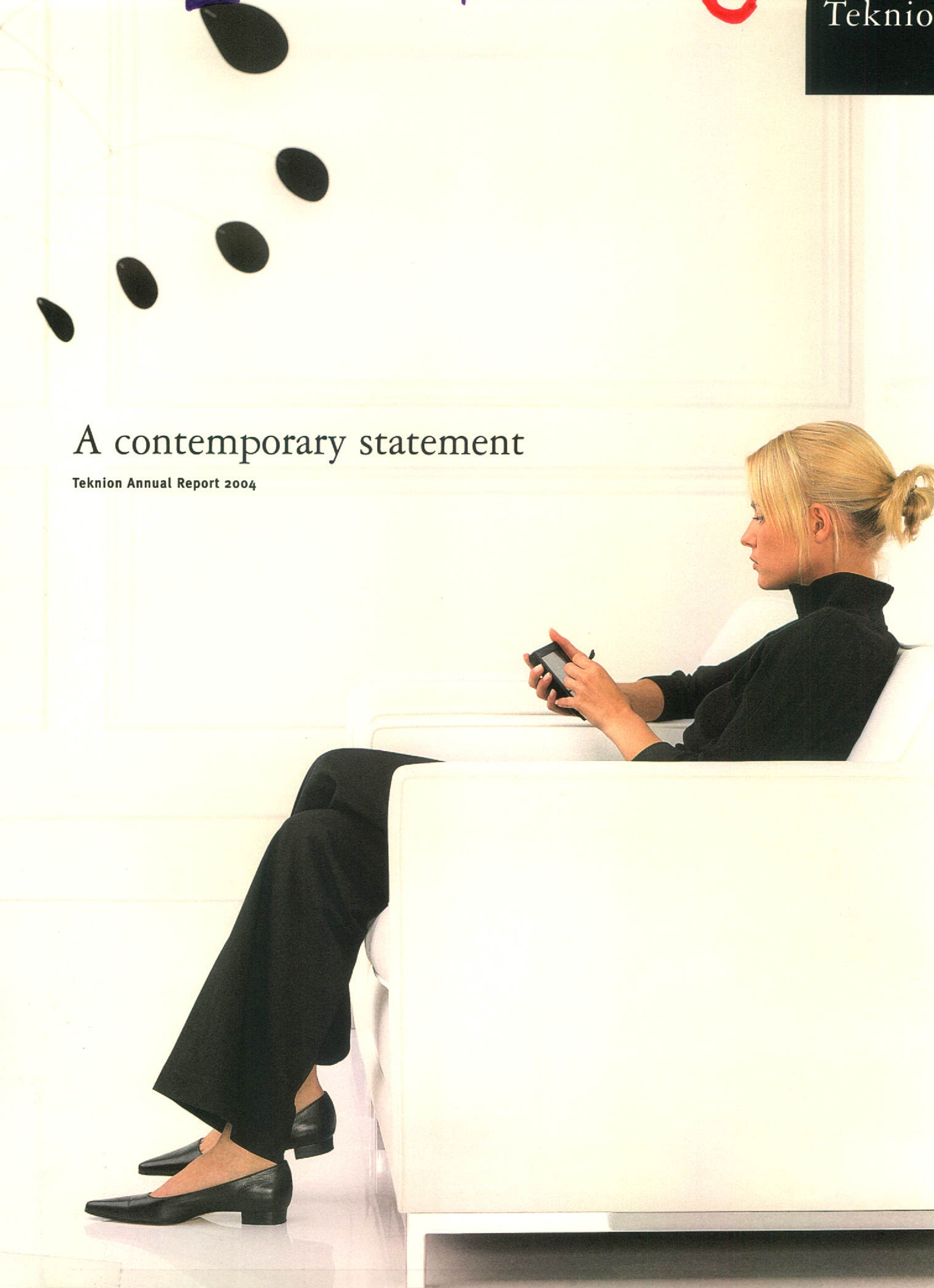
Teknion Corporation

C

Teknio

A contemporary statement

Teknion Annual Report 2004



TEKNION IS A LEADING INTERNATIONAL DESIGNER, MANUFACTURER AND MARKETER OF OFFICE SYSTEMS AND RELATED PRODUCTS FOR THE CONTRACT SEGMENT OF THE OFFICE FURNITURE INDUSTRY. WE ARE THE MARKET SHARE LEADER IN CANADA, WITH AN EXPANDING PRESENCE OVERSEAS, AND OVER THE PAST DECADE HAVE BEEN AMONG THE FASTEST GROWING MAJOR OFFICE FURNITURE COMPANIES IN THE UNITED STATES.

Teknion

Financial Highlights

($000 except per share amounts)

November 30	2004	2003	2002	2001	2000
Statement of earnings data					
Sales	497,345	502,788	525,800	785,528	935,345
Earnings (loss) from operations	(15,119)	(49,435)	(54,636)	53,800	152,263
Net earnings (loss)	(17,810)	(30,112)	(32,006)	35,829	93,960
Earnings (loss) per share (basic)	$ (0.28)	$ (0.47)	$ (0.50)	$ 0.56	$ 1.47

($000)

November 30	2004	2003	2002	2001	2000
Balance sheet data					
Total assets	408,508	412,125	463,589	512,940	495,532
Long-term debt	20,481	24,558	32,398	31,596	18,125
Shareholders' equity	234,533	256,744	290,139	322,780	284,904

Clear. Simple. Elegant.

The hallmarks of contemporary style – and of our company. In everything we do, Teknion strives to communicate clearly and effectively. Avoiding ornament in favor of what is truly essential. In the story of our business and in the office furniture we produce, Teknion makes a contemporary statement.

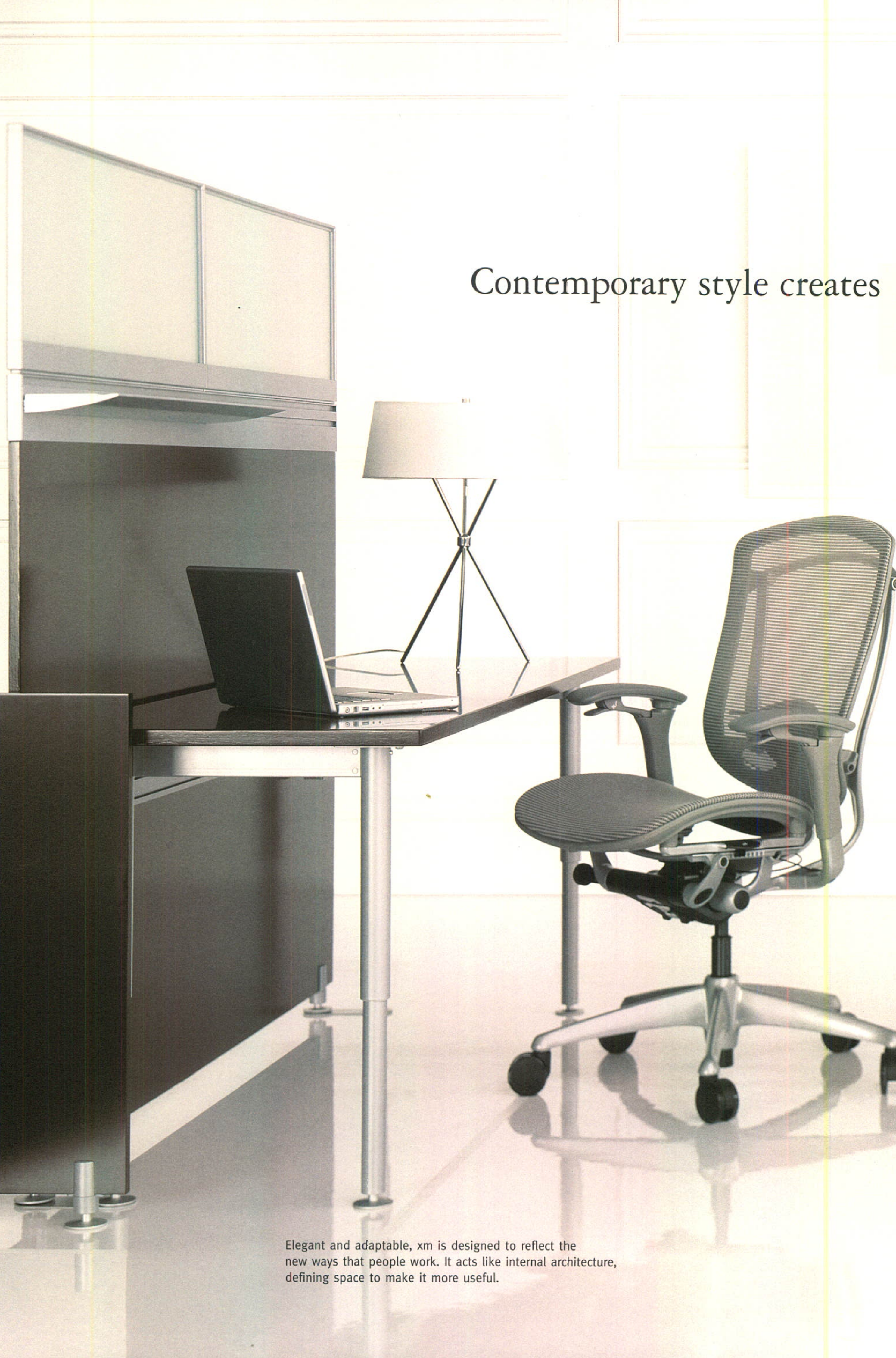
Contemporary design embraces the possibilities opened by new materials and technology, while remaining grounded by a centuries-old tradition of craft. It incorporates ideas from North America, Europe and Asia to create solutions that are unique in expression, but universal in application.

Our furniture reflects the needs of people in the modern workplace. It is built to work and built to last, but always designed with the belief that what is useful should also be beautiful.

A contemporary twist on a classic statement

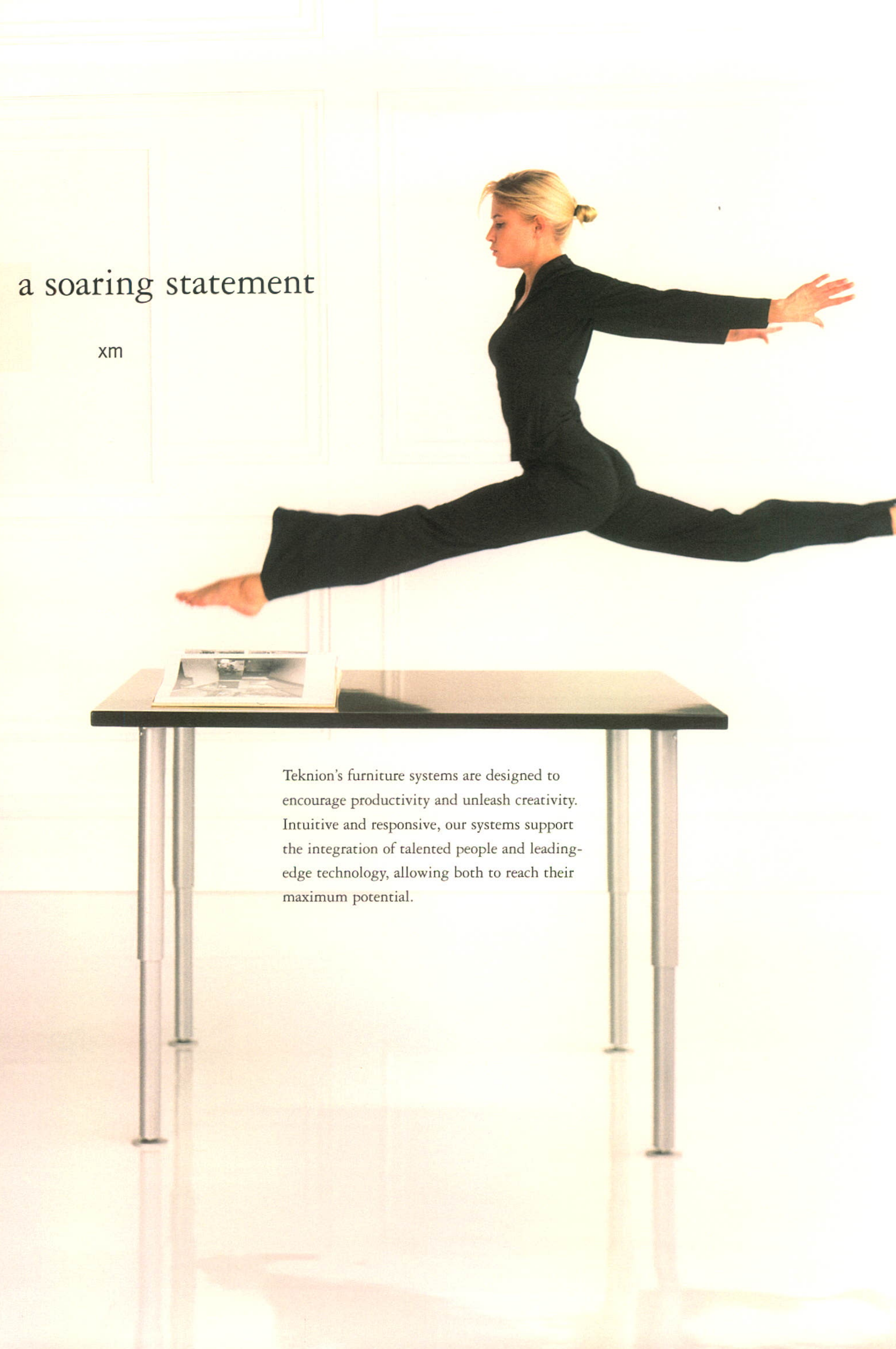
hosta

Hosta has retained the virtues of the classic club chair – comfort and simplicity – making it light, durable and functional for any work environment.



Contemporary style creates

Elegant and adaptable, xm is designed to reflect the new ways that people work. It acts like internal architecture, defining space to make it more useful.



a soaring statement

xm

Teknion's furniture systems are designed to encourage productivity and unleash creativity. Intuitive and responsive, our systems support the integration of talented people and leading-edge technology, allowing both to reach their maximum potential.

In today's workplace, change is the only constant. So Teknion creates products that can adapt and integrate to meet changing needs. And in the office environment, as in the natural environment, adaptability is the key to success.

ie reinvents the concept of the post-and-beam structure by supporting planning around every 15-degree interval, allowing virtually unlimited layout variations.

Contemporary thinking makes an open-ended statement

ie

Dear Fellow Shareholders,

2004 was a year of significant accomplishment for Teknion.

For the first time since the industry downturn commenced in 2001, we grew our overall unit sales revenues. For the third consecutive year, we substantially reduced our overall cost structure. And, most importantly, we returned our operations to profitability, generating positive earnings from operations before depreciation of over $7 million.

We achieved these improvements in the face of some very strong headwinds caused by the decline in the value of the U.S. dollar during the year, and the substantial increase in the price of many of our raw materials, particularly steel. We estimate that increased raw material prices in 2004 had a negative impact of approximately $9 million, and that the change in the value of the currency had a negative impact (net of hedging) of $12 million. Adjusting for commodities and the dollar, we improved our operating profit by almost $40 million on a year-over-year basis.

We achieved these operating improvements by continuing to diligently reduce our costs and enhance our efficiencies. We decreased our SG&A costs from $148 million in 2003, to $133 million in 2004 (a $15 million reduction on approximately the same level of sales). And we significantly increased our manufacturing efficiency – generating a 1% improvement in gross margin despite the negative impact of commodities and the dollar.

We've kept our focus on lowering our cost structure, being careful not to jeopardize those aspects of our operations that are critical to servicing customers, and developing new products essential to our long-term profitability and growth.

Accordingly, we continued with our aggressive program of extending the depth and breadth of our product range – particularly in areas such as seating, casegoods and storage – to leverage our distribution and provide our customers with an even more comprehensive offering of innovative, integrated, design-driven office furniture.

We also continued to broaden our customer base, building on the inroads we made last year, particularly in the government and educational sectors, where we significantly exceeded our sales objectives.

The U.S. market remains our largest opportunity. On a source currency basis, U.S. sales increased in fiscal 2004 by 13% – substantially ahead of the 5% increase for the same period reported for the industry overall by BIFMA – the Business and Institutional Furniture Manufacturers Association.

Revenues throughout the company accelerated towards the end of 2004, and sales of $138 million in the fourth quarter were the strongest in almost two years. And while we attained increases in all of our markets (Canada, the United States and International), sales in the U.S. were particularly strong – increasing in the last quarter of 2004 by 40% on a year-over-year basis – again, well ahead of industry growth of 4% in the same period.

LOOKING AHEAD

The operating environment is improving and it appears that the industry recovery that began early last year is achieving traction. Industry shipments grew by double digits in January, marking the 12th consecutive month of positive year-over-year comparisons, and BIFMA forecasts industry growth of 8% in 2005.

We are well positioned to capitalize on this recovery, and leverage the economies of scale resulting from our vertical integration and the investments in facilities and operations that we have made since 2000. Our expanding product offering continues to build on one of Teknion's key competitive strengths – integrated design that delivers infinite possibilities to our customers. Our international presence remains strong, and as a result of last year's restructuring is more efficient. We are gaining share in our largest market, the United States. And in Canada, we are the leader in the contract furniture business, a tribute to our extensive dealer base and long-standing customer relationships.

Looking ahead, we expect revenues to continue to improve in 2005, which should result in a meaningful improvement in our financial results. Longer term, the steps we have taken to broaden our customer base and expand our product offering, together with our focus on costs, position us well for growth and increased profitability as business conditions improve.

On behalf of our entire management team, we would like to thank the members of our Board of Directors for their guidance and leadership, our employees for their hard work and commitment, and our customers, dealers and shareholders for their continued support.

David Feldberg

DAVID FELDBERG
President and Chief Executive Officer

Saul Feldberg

SAUL FELDBERG
Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING MANAGEMENT'S DISCUSSION AND ANALYSIS OF the financial condition and results of operations for Teknion Corporation ("Teknion" or the "Company") for the years ended November 30, 2004 and 2003 should be read in conjunction with the Company's consolidated financial statements and the notes to those statements included in the 2004 Annual Report. In addition, the Company's continuous disclosure filings are available at www.sedar.com.

OVERVIEW

Teknion is an international designer, manufacturer and marketer of office systems and related products such as seating, storage, filing and tables. The Company's primary product offering is office systems, which accounted for a majority of the Company's sales in fiscal 2004. The Company's operations include approximately 2.7 million square feet of vertically integrated manufacturing space, sales and marketing operations and showrooms, located in major markets around the world. The Company's products are sold through authorized dealers.

From 1994 through 2000 the Company grew at a compound annual growth rate in excess of 40%. Over this period, Teknion consistently outperformed the overall contract office furniture industry as measured by the Business and Institutional Furniture Manufacturers Association (BIFMA). Teknion attributes its superior track record of growth over this period to its ability to introduce new and innovative products, expand into new geographic markets and increase market share.

Beginning in mid-2001 and continuing throughout fiscal 2003, the contract office furniture industry experienced an unprecedented decline in demand. The estimated total annual production of office furniture in the U.S. declined from approximately U.S. $13 billion in 2000 to U.S. $8.4 billion in fiscal 2003. In late fiscal 2003, the rate of decline subsided, and in fiscal 2004, the industry grew to $8.8 billion. Most industry observers believe that a recovery is underway and anticipate further growth in 2005.

Given the significant change in market conditions since 2001, the Company has successfully improved its cost structure. Manufacturing space has been consolidated, selling, general and administrative costs have been significantly reduced, and the Company's Malaysian and United Kingdom operations have been restructured. These activities, coupled with the Company's continued focus on improving manufacturing efficiency, have had a significant positive impact on costs. However, the significant rise in the price of commodities, particularly steel, and further weakening of the U.S. dollar in 2004 mitigated to a considerable extent the benefit of the Company's cost reductions.

While being mindful of economic conditions, the Company has been careful not to jeopardize those aspects of its operations that are critical to servicing customers and developing new products, which are essential to its long-term sales growth and return to profitability. Accordingly, Teknion continued to introduce innovative, award-winning office products in 2004. New product highlights included the **Origami** line of modular wood casegoods, the **Complements** ergonomics and accessories program that organizes and personalizes workspaces to promote healthy working environments, and the introduction of **Quick Shift Tables** that provide instant sit/stand height adjustment to ease computer-intensive work. Two new seating lines were launched – the **Savera** task chair and the **Nami** stacking chair – along with several new fabrics, including the renewable, biodegradable **Spiral** and **Speckle** panel fabrics. As well, the Company's new desking system – **ie** – was launched in Canada, and has had significant success in the market in its first year. In mid-2005, **ie** will be launched in the United States, where it is already receiving considerable attention.

RESULTS OF OPERATIONS

Annual

Years ended November 30
(in '000s except per share amounts)

	2004	2003	2002
Sales	$ 497,345	$ 502,788	$ 525,800
Gross margin	$ 140,637	$ 137,878	$ 157,452
Gross margin (% of sales)	28.3%	27.4%	29.9%
Expenses	$ 158,938	$ 190,702	$ 215,349
Net loss	$ (17,810)	$ (30,112)	$ (32,006)
Loss per share (basic and diluted)	$ (0.28)	$ (0.47)	$ (0.50)
Total assets	$ 408,508	$ 412,125	$ 463,589
Long-term debt	$ 20,481	$ 24,558	$ 32,398
Multiple voting shares	39,920	39,955	40,059
Subordinate voting shares	24,181	24,132	24,027

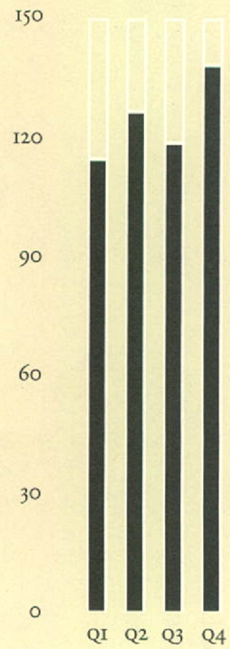
Quarterly
Fiscal 2004

($000 except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	114,339	126,392	118,626	137,988	497,345
Gross margin	31,170	38,534	31,652	39,281	140,637
Gross margin (% of sales)	27.3%	30.5%	26.7%	28.5%	28.3%
Expenses	39,325	38,181	40,436	40,996	158,938
Net earnings (loss)	(4,082)	1,416	(5,235)	(9,909)	(17,810)
Earnings (loss) per share (basic and diluted)	$ (0.06)	$ 0.02	$ (0.08)	$ (0.16)	$ (0.28)

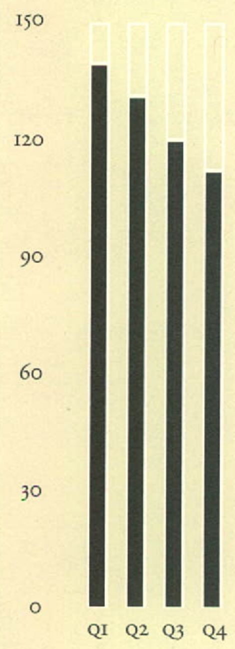
Quarterly
Fiscal 2003

($000 except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	139,625	131,095	120,005	112,063	502,788
Gross margin	40,149	34,996	34,119	28,614	137,878
Gross margin (% of sales)	28.8%	26.7%	28.4%	25.5%	27.4%
Expenses	45,868	45,355	55,907	43,572	190,702
Net loss	(2,670)	(6,107)	(14,032)	(7,303)	(30,112)
Loss per share (basic and diluted)	$ (0.04)	$ (0.10)	$ (0.22)	$ (0.11)	$ (0.47)

2004
QUARTERLY SALES
(in thousands of dollars)



2003
QUARTERLY SALES
(in thousands of dollars)



Quarterly Results

The fluctuation in quarterly results is largely a function of sales volume and product mix. However, the net loss reported in the fourth quarter of fiscal 2004 includes an adjustment to the Company's valuation allowance for future tax assets and is discussed below under the heading *Critical Accounting Estimates.*

In the third quarter of fiscal 2003, the Company recorded restructuring costs relating to its U.K. and Malaysian operations. These costs are discussed in more detail below under the heading *Other Expenses.*

GEOGRAPHIC SALES
(as percentages of total sales)

Sales

Teknion's sales represented by geographic region are set forth below.

Years ended November 30 ($000)	2004	%	2003	%	2002	%
Canada	$ 184,751	37.1	$ 197,211	39.2	$ 204,330	38.9
United States	272,438	54.8	263,853	52.5	274,959	52.3
International	40,156	8.1	41,724	8.3	46,511	8.8
Total	$ 497,345	100	$ 502,788	100	$ 525,800	100

Sales for the year ended November 30, 2004 were $497.3 million, a decline of 1% compared to the prior year. Reported sales were negatively impacted by the decline in the value of the U.S. dollar relative to the Canadian dollar. Sales in fiscal 2003 were $502.8 million as compared to $525.8 million in 2002, a decline of 4.4%. Consistent with 2004, the decline in sales reported in 2003 primarily reflects the impact of the weaker U.S. dollar.

Canadian sales declined 6.3% following a decline of 3.5% in 2003. Although the Canadian market has experienced a decline in sales since 2000, as the largest participant in the Canadian contract furniture industry and with long-standing customer relationships, the Company believes that it has maintained its market share. Although Canadian sales were lower for the year, the trend in the fourth quarter as compared to the fourth quarter of 2003 was positive as sales rose to $48.2 million, an increase of 16.2%. In addition, sales grew sequentially, as fourth quarter sales were 21.6% higher than third quarter sales.

The following table reflects U.S. sales in U.S. dollars:

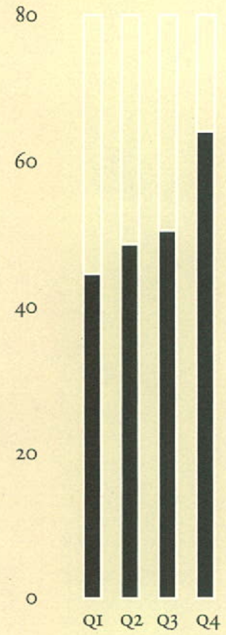
Years ended November 30 (U.S.$000)	2004	2003	2002
	$ 207,448	$ 184,330	$ 177,469

Sales in the U.S. increased 3.3% in Canadian dollars to $272.4 million; however, when measured in U.S. dollars, the increase was 12.5%. The weakening of the U.S. dollar when translated to Canadian dollars distorts the growth achieved in the U.S. market. Teknion gained market share in the U.S. as the Company's growth exceeded the 4.5% growth rate of the industry overall as reported by BIFMA for fiscal 2004. Notably, Teknion's sales in the fourth quarter increased 40.2% in U.S. dollars as compared to the prior year quarter, again exceeding overall industry growth, which was 4.5%. The Company's strategy to broaden its customer base into segments where it previously did not have a strong presence, including health, education and government sectors, has been very successful.

Sales in the U.S., measured in U.S. dollars, increased 12.5%.

International sales were $40.2 million compared to $41.7 million in 2003. More than half of international sales are transacted in U.S. dollars, and therefore the modest growth achieved in these markets is masked by the weakening of the U.S. dollar during the year.

2004
QUARTERLY U.S. SALES
(in millions of U.S. dollars)



Gross Margin

Gross margin as a percentage of sales increased in 2004 to 28.3% from 27.4% in 2003. The Company's ongoing initiatives to reduce costs, consolidate facilities and realize production efficiencies resulted in the improvement to gross margin. Weakening of the U.S. dollar and the rise in the price of commodities partially offset these efficiencies and cost reductions. The Company introduced a 5% surcharge on its products in April 2004 to offset some of these commodity cost increases. The impact of a weakening U.S. dollar was also significant, reducing margins by approximately 2.4% of sales as compared to 2003. The Company continues to focus on increasing efficiencies and reducing costs to offset the impact of these economic factors.

Operating Expenses

Selling, general and administrative ("SG&A") expenses were $133.5 million, a reduction of $14.8 million or approximately 10% as compared to 2003. This reduction follows a decline of 17% in 2003 as compared to 2002. The Company's cost management and restructuring activities have resulted in a significant decline in SG&A. Although the Company will continue to closely manage SG&A costs, we expect these costs to rise in 2005 to support the anticipated improvement in the marketplace.

Depreciation expense was $22.4 million for the year, or 17% lower than 2003, which followed a decline of 6% from 2002. Depreciation expense has declined because capital spending has been limited in line with market conditions, and because of the corresponding reduction in the Company's depreciable assets (see Note 4 to annual consolidated financial statements). For 2005, depreciation expense is expected to be marginally lower.

The Company's cost management and restructuring activities have resulted in a significant decline in SG&A.

Other Expenses

In 2004, the Company recorded a recovery of restructuring costs totaling $739 thousand as compared to an expense of $12.1 million in 2003. The recovery recorded in fiscal 2004 occurred primarily because estimated facility exit costs were less than those anticipated and expensed in fiscal 2003. The restructuring costs recorded in 2003 of $12.1 million related to the Company's manufacturing operations in Malaysia and the United Kingdom.

In Malaysia, prior to the restructuring, manufacturing was being carried out in two facilities, Klang and Tangkak. Given the decline in annual sales in this operation, the Company had significant excess capacity and was incurring losses. In addition, many administrative support activities were being duplicated. Accordingly, the Company decided to consolidate the operations into one facility. The restructuring costs for Malaysia totaled $2.6 million and related to inventory obsolescence, fixed asset write-offs, employee severance payments and relocation costs. See Note 14 to annual consolidated financial statements for a summary of these costs.

In the United Kingdom, the office furniture industry declined by 35% in 2003. As a result, the Company outsourced manufacturing operations, reduced staff levels and consolidated sales offices. The restructuring costs for the United Kingdom totaled $9.5 million and related to inventory obsolescence, fixed asset write-offs, loans to a distributor, facility exit costs and employee severance payments. See Note 14 to annual consolidated financial statements for a summary of these costs. The restructuring of the Malaysian and United Kingdom facilities was completed in fiscal 2003.

Net interest expense declined in fiscal 2004 to $2.9 million from $3.2 million in fiscal 2003. Average interest rates were lower in fiscal 2004, offsetting the impact of higher average debt levels.

Net Loss

The Company incurred a net loss of $17.8 million or $0.28 per share in fiscal 2004 as compared to a net loss of $30.1 million or $0.47 per share in 2003 and a net loss of $32 million or $0.50 per share in 2002. Although the Company was able to substantially offset the weakening of the U.S. dollar and the rise in commodity prices during the year through its continuing cost reduction and manufacturing efficiency initiatives, these operating improvements were not sufficient to result in overall profitability. It is worth noting, however, that despite the aforementioned impact of the exchange rate and commodity prices, the net loss in 2004 represents a significant improvement over the prior two fiscal years. Fortunately, an industry recovery appears to be underway. This recovery, coupled with the Company's strategies to increase revenue and improve efficiency, and the utilization of the Company's available manufacturing capacity, should result in an improvement to operating results.

LIQUIDITY AND CAPITAL RESOURCES

Years ended November 30 ($000)	2004	2003	2002
Cash from (used in) operations before non-cash working capital changes	$ 1,509	$ (8,895)	$ (3,281)
Cash from operations after non-cash working capital changes	$ 1,508	$ 13,288	$ 42,592
Capital expenditures	$ 7,329	$ 9,407	$ 32,819
Net debt to equity	0.23:1	0.18:1	0.18:1

For the first time since fiscal 2001, the significant improvement in the Company's financial performance resulted in positive cash flow from operations, before non-cash working capital changes. Cash generated totaled $1.5 million in 2004, compared to cash consumed of $8.9 million in 2003 and $3.3 million in 2002.

Non-cash working capital was unchanged from 2003, despite the increase in business activity in the fourth quarter of fiscal 2004 as compared to 2003. Sales in the fourth quarter of 2004 were $138.0 million as compared to $112.1 million in the prior year period. Consequently, as compared to 2003, accounts receivable increased to $94.5 million from $88.4 million; inventories increased to $48.4 million from $43.8 million; and accounts payable and accrued liabilities increased to $86.2 million from $77.0 million. Management of working capital improved during the year and, accordingly, days outstanding for accounts receivable were 62 as at November 30, 2004, compared to 70 as at November 30, 2003. Further, the number of days of production inventory declined to 47 at November 30, 2004 from 49 as at November 30, 2003. In both 2003 and 2002, the Company recovered income taxes paid in prior periods, which contributed to reductions to non-cash working capital in those years.

Significant improvement in the Company's financial performance resulted in positive cash flow from operations.

The Company has significant available manufacturing capacity and as a result capital spending requirements were minimal and totaled $7.3 million for the year, as compared to $9.4 million in fiscal 2003. During the year, capital expenditures were directed to tooling for new products and replacement of computer hardware. For fiscal 2005, capital expenditures of approximately $16 million are planned, of which the majority relates to tooling for new products and manufacturing equipment.

At November 30, 2004, the Company's net debt was $53.2 million compared to $46.9 million at November 30, 2003. The Company defines net debt as operating loans plus long-term debt, less cash. The balance sheet remains strong with a net debt-to-equity ratio of 0.23:1. At November 30, 2004, the Company utilized $43.9 million of its $87.2 million operating lines of credit with the majority of its credit lines bearing interest at the banks' prime rate plus 0.5% per annum.

As noted, more than half of the Company's sales are U.S.-based and are billed and collected in U.S. dollars. In addition, approximately half of international sales are transacted in U.S. dollars. Accordingly, the Company is exposed to changes in the value of the U.S. dollar compared to the Canadian dollar. The Company's current policy is to hedge a portion of its U.S. dollar exposure, based on forecast U.S. dollar revenues, by entering into foreign exchange contracts. As well, the Company has an inherent or "natural" hedge, which at current sales levels, covers more than half of its U.S. dollar sales. This natural hedge derives principally from the purchase of products and material in U.S. dollars, and from the cost of running the Company's U.S. operations. As at November 30, 2004, the Company held foreign exchange contracts maturing within 12 months for the sale of U.S. $75 million at a weighted average rate of exchange of $1.33 (see Note 12(a) to annual consolidated financial statements). Foreign exchange contracts settled during 2004 resulted in increasing reported sales and decreasing the loss before income tax by $4.6 million.

The following table summarizes the Company's contractual obligations:

	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	$ 20,481	$ 2,057	$ 3,382	$ 1,769	$ 13,273
Operating leases	59,410	14,991	23,882	11,739	8,798
Total contractual obligations	$ 79,891	$ 17,048	$ 27,264	$ 13,508	$ 22,071

RELATED PARTY TRANSACTIONS

Transactions with related parties were as follows:

	2004	2003	2002
Sales	$ 9,238	$ 13,290	$ 14,777
Purchases	45,245	47,876	65,231
Lease payments	8,469	8,275	8,030
Other purchases	272	233	246

Substantially all related party transactions occurred with an indirect shareholder, Global Upholstery Co. Limited ("Global"), and entities controlled by, related to or significantly influenced by Global. Transactions between the Company and Global occur at prices that are either in accordance with written agreements between the Company and Global or in accordance with regular market prices. Management believes that the prices and terms at which all transactions are conducted with Global are competitive with prices and terms for comparable arm's length transactions. The Corporate Governance Committee of the Board of Directors is responsible for and reviews, monitors and establishes all policies for related party transactions.

Purchases from Global

Global manufactures the Boulevard line and the Descor line, both of which are targeted to the mid-priced segment of the contract furniture market. Boulevard and Descor are sold in the United States by Teknion pursuant to an exclusive distribution agreement with Global.

The Global Group Israel Limited Partnership ("Global Israel") is a supplier of certain products to Teknion for the European market, and for its own account is the exclusive manufacturer and distributor of Teknion products in Israel, the Czech Republic, the Slovak Republic, Bulgaria, Turkey, Cyprus and Egypt, collectively the "Territory." Global Israel has agreed not to sell or permit the sale of Teknion products outside the Territory other than to Teknion.

Global maintains a government-certified testing laboratory for purposes of testing newly developed and customized products and components used in the manufacturing of products. The Company uses the facility and pays Global for use of this testing facility.

Sales to Global

Global currently purchases components and products manufactured by the Company.

Sales to Related Party Dealers

Two of the Company's subsidiaries have third-party minority shareholders. These shareholders have direct or indirect interests in office furniture dealers that sell and distribute the Company's products. Management believes that the prices at which product is purchased by these related parties from the Company are competitive.

Leases from Global

The Company leases properties from entities related to Global. These properties are used for general manufacturing and office purposes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period.

The most significant accounting estimates included in the consolidated financial statements are: goodwill valued at $30.9 million and unchanged from 2003 and 2002; and the valuation of net future tax assets.

The Company has recorded net future tax assets relating to operating losses and tax credit carryforwards totaling $20.3 million. In fiscal 2004, $4.1 million (2003 – $20.7 million) was added to net future tax assets and is reflected in the income tax recovery recorded on the consolidated income statement. Note 3 to the consolidated financial statements shows the expiry of unused tax losses by fiscal year.

The Company assesses the realization of these future tax assets to determine whether an income tax valuation allowance is required. The main factors that are considered include:

- cumulative losses in recent years;
- the carryforward period associated with the future tax assets;
- net earnings/loss by tax jurisdiction; and
- future earnings potential determined through the use of internal forecasts and available external market research.

Based on the above-noted factors, during fiscal 2004 a valuation allowance totaling $8.1 million (2003 – $2.6 million) was recorded and is reflected in net future tax assets on the consolidated balance sheet. The Company cannot be assured that it will be able to realize these future tax assets or that future valuation allowances will not be required.

NEW CICA REPORTING REQUIREMENTS

a) Effective December 1, 2003 the Company prospectively adopted amendments to The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The standard was implemented for all stock option grants that will be settled by issuing common shares. The value of option grants is measured on the grant date using a fair value model and is expensed and recorded as contributed surplus over the vesting period. The compensation cost is the fair value of the stock option on the grant date using the Black-Scholes option pricing model. On the exercise of the stock option, the consideration paid by the employee and the related amount in contributed surplus is credited to share capital.

Stock options that were granted before fiscal 2004 will be accounted for as a capital transaction when exercised and no compensation costs will be recognized.

b) On December 1, 2003, the Company adopted the new recommendations of the CICA Handbook AcG 13, Hedging Relationships. There was no impact on the financial statements upon adoption of AcG 13, as the Company had previously accounted for its forward foreign exchange contracts in the same manner. The Company prepares the formal documentation required by AcG 13.

AcG 13 established conditions for applying hedge accounting commencing in fiscal years beginning on or after July 1, 2003. Under this Guideline, an entity may use hedge accounting when the entity identifies the nature of specific risk exposures, designates that hedge accounting will be applied and formally documents the relationships between hedging instruments and associated hedged items. This documentation includes: identification of the specific foreign currency asset, liability or forecasted transaction being hedged, the nature of the risk being hedged, the hedge objective and the method of assessing hedge effectiveness. Hedge effectiveness is formally assessed, both at hedge inception and on an ongoing basis, to determine whether derivatives used in hedging transactions are highly effective in offsetting changes in foreign currency cash flows of hedged items.

RISKS AND UNCERTAINTIES

Factors that could cause actual results to differ from expectations include, but are not limited to, fluctuations in the Company's operating results due to product demand arising from competitive and general economic and business conditions in the Company's North American and international markets and operations; significant fluctuations in exchange rates for currencies in which the Company does business; changes in the cost of raw materials; the ability to maintain the proprietary nature of the Company's intellectual property in the design and manufacturing of its products; changes in the size and timing of customers' order patterns; changes in the Company's markets, including technology change, changes in customer requirements, realization of the future tax assets recorded on the Company's balance sheet, frequent new product introductions by competitors and emerging standards; the Company's dependence on key personnel; the Company's dependence on key commitments from significant dealers and distributors; potential liabilities arising from product defects; and environmental matters.

OUTLOOK

Management continues to believe that, over the long term, the worldwide business environment will increasingly require that organizations and institutions utilize costly office space more effectively and improve the working environment to increase employee productivity. The Company also believes that these factors, combined with increased commercial construction and capital spending, as well as the growing use of technology and the increasing awareness of workplace health and safety, will allow long-term growth in the contract office furniture industry to exceed growth in GDP.

The Company believes that the positive trend of growing customer demand reflected in the BIFMA statistics since the first quarter of 2004 bodes well for the office furniture industry. Most industry observers agree that a recovery is underway as a result of modest improvement in unemployment, new office construction and a decline in the office vacancy rate. Tempering these factors is an anticipated decline in corporate profitability generally.

The Company remains confident that its focused growth strategies, combined with its comprehensive product lines, innovative designs and extensive dealer network, will enable the Company to capitalize on renewed demand in its markets as business conditions improve. In addition, new sales and marketing programs are broadening the Company's customer base into market segments in the U.S. where the Company did not previously have a strong presence, including the health, education and government sectors. The Company's success to date is demonstrated by its significant year-over-year sales growth in the U.S.

The Company's strategies for future growth and improvement to its operating results are to: continue to develop its sales and marketing initiatives to expand its presence and market share, focusing on market segments where the Company previously did not have a strong presence; leverage the strength and economies of scale resulting from the vertical integration and recent modernization of its manufacturing facilities and processes; maintain its focus on design and innovation to ensure it can respond quickly with new and enhanced products to meet the needs of its customers; continue its focus on cost improvement and efficiency, particularly in light of the rise of commodity prices and the decline in value of the U.S. dollar; and make prudent acquisitions that meet the Company's long-term strategic objectives.

As a result of these strategies and an anticipated improvement in the market for the Company's products, management expects to generate improved financial performance in fiscal 2005 compared to fiscal 2004.

FORWARD-LOOKING STATEMENTS

This Annual Report and management's discussion and analysis of the financial condition and results of operations contain forward-looking statements with respect to the Company's future prospects. These statements involve certain risks and uncertainties that could cause the Company's financial results to differ materially from stated expectations. Factors that could cause actual results to differ from expectations are outlined above. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Teknion Corporation as at November 30, 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 Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 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.

KPMG LLP

CHARTERED ACCOUNTANTS
Toronto, Canada
February 7, 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and information included in this Annual Report have been prepared by the management of Teknion Corporation in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgments and estimates. Management is responsible for the integrity and objectivity of these financial statements. To fulfill this responsibility, Teknion maintains an appropriate system of internal control, policies and procedures to reasonably ensure that its reporting practices and accounting and administrative procedures provide reliable and accurate financial information, and that assets are adequately safeguarded. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements in all material respects.

KPMG LLP, the auditors appointed by the shareholders of Teknion, have examined the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. Their report as the Company's auditors is set forth herein.

The financial statements have been further reviewed and approved by the Board of Directors and its Audit Committee. This Committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

DAVID FELDBERG
President and Chief Executive Officer
February 7, 2005

SCOTT BOND
Chief Financial Officer and Secretary
February 7, 2005

CONSOLIDATED BALANCE SHEETS

November 30 (in thousands of dollars)	2004	2003
ASSETS		
Current assets:		
Cash	$ 11,154	$ 8,005
Accounts receivable (NOTE 2(A))	94,497	88,402
Income taxes receivable	–	3,506
Inventory	48,393	43,849
Prepaid expenses and other deposits	4,454	5,362
Future income taxes (NOTE 3)	1,283	3,816
	159,781	152,940
Future income taxes (NOTE 3)	41,440	34,625
Capital assets (NOTE 4)	176,073	193,351
Loan receivable (NOTE 5)	340	335
Goodwill	30,874	30,874
	$ 408,508	$ 412,125
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Operating loans (NOTE 6)	$ 43,907	$ 30,314
Accounts payable and accrued liabilities (NOTE 2(A))	86,168	76,991
Income taxes payable	380	–
Due to affiliated companies (NOTE 2(B))	584	1,225
Current portion of long-term debt (NOTE 7)	2,057	2,130
	133,096	110,660
Long-term debt (NOTE 7)	18,424	22,428
Future income taxes (NOTE 3)	22,455	22,293
Shareholders' equity:		
Share capital (NOTE 8)	106,928	106,851
Retained earnings	137,140	154,950
Currency translation adjustment	(9,535)	(5,057)
	234,533	256,744
Commitments (NOTE 10)		
	$ 408,508	$ 412,125

See accompanying notes to consolidated financial statements.

ON BEHALF OF THE BOARD:

David Feldberg

DAVID FELDBERG
Director

GEORGE S. TAYLOR
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended November 30 (in thousands of dollars, except per share amounts)	2004	2003
Sales	$ 497,345	$ 502,788
Cost of sales	356,708	364,910
Gross margin	140,637	137,878
Expenses:		
Selling, general and administrative (NOTE 1(F))	133,459	148,254
Depreciation and amortization	22,406	26,995
Restructuring costs (recovery) (NOTE 14)	(739)	12,064
Loss on disposal of investment	630	–
	155,756	187,313
Loss from operations	(15,119)	(49,435)
Interest expense, net (NOTE 7)	2,865	3,238
Loss on disposal of capital assets	317	151
Loss before income taxes	(18,301)	(52,824)
Income taxes (recovery) (NOTE 3):		
Current	3,629	(2,038)
Future	(4,120)	(20,674)
	(491)	(22,712)
Loss for the year	$ (17,810)	$ (30,112)
Loss per share (NOTE 9):		
Basic and diluted	$ (0.28)	$ (0.47)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended November 30 (in thousands of dollars)	2004	2003
Retained earnings, beginning of year	$ 154,950	$ 185,062
Loss for the year	(17,810)	(30,112)
Retained earnings, end of year	$ 137,140	$ 154,950

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30 (in thousands of dollars)	2004	2003
Cash provided by (used in):		
OPERATIONS:		
Loss for the year	$ (17,810)	$ (30,112)
Items not affecting cash:		
Depreciation and amortization	22,406	26,995
Future income taxes	(4,120)	(20,674)
Restructuring costs (recovery) (NOTE 14)	(739)	10,946
Foreign-exchange loss	825	3,799
Loss on disposal of capital assets	317	151
Loss on disposal of investment	630	–
	1,509	(8,895)
Change in non-cash operating working capital	(1)	22,183
	1,508	13,288
FINANCING:		
Operating loans	13,593	(4,957)
Repayment of long-term debt	(2,124)	(2,623)
Issue of share capital	77	–
	11,546	(7,580)
INVESTMENTS:		
Purchase of capital assets	(7,329)	(9,407)
Proceeds on disposal of capital assets	130	399
Loan receivable	–	(135)
	(7,199)	(9,143)
Foreign exchange loss on cash held in foreign currencies	(2,706)	(4,424)
Increase (decrease) in cash	3,149	(7,859)
Cash, beginning of year	8,005	15,864
Cash, end of year	$ 11,154	$ 8,005

Supplemental cash flow information (NOTE 13)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars) Years ended November 30, 2004 and 2003

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of Teknion Corporation and all of its subsidiaries ("Teknion" or the "Company"). All significant intercompany transactions have been eliminated on consolidation.

(b) Revenue recognition:

Revenue from the sale of goods is recognized when title passes to customers, which is generally at the time the goods are shipped.

(c) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(d) Capital assets:

Capital assets are recorded at cost and depreciated on a declining-balance basis at the following annual rates:

Buildings	5%
Computer hardware	20%
Computer software	20%
Manufacturing equipment	10%
Office equipment	20%
Tools and dies	10%

Showrooms are depreciated on a straight-line basis over four years.

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Patents and trademarks are amortized on a straight-line basis over ten years.

(e) Goodwill and other intangible assets:

Goodwill represents the difference between the purchase price and the related underlying net asset values resulting from business acquisitions. The Company compares the carrying value of goodwill to an estimate of its fair value annually. Due to the integrated nature of the Company's operations and lack of differing economic characteristics among the Company's subsidiaries, the entire Company was determined to be one single reporting unit. The quoted market price of the Company's stock on the impairment testing date is the basis for determining the fair value of the Company's reporting unit. If the fair value of the Company's one reporting unit exceeds its carrying amount, further evaluation is not necessary. However, if the fair value of the reporting unit is less than its carrying amount, further evaluation is required to compare the implied fair value of the reporting unit's goodwill to its carrying amount to determine whether a write-down of goodwill is required. Intangible assets with determinable lives continue to be amortized over their estimated useful lives and are tested for impairment at least annually by comparing their book values with the undiscounted cash flow expected to be received from their use. The Company determined that no impairment existed in the carrying value of the goodwill in its reporting unit as at November 30, 2004 and 2003.

(f) Translation of foreign currency:

Foreign operations are classified as self-sustaining or integrated.

(i) Self-sustaining foreign operations:

All assets and liabilities are translated into Canadian dollars at exchange rates in effect at year-end. Revenue and expenses are translated at the average rates of exchange for the year. The resulting net gains or losses are shown under currency translation adjustment in shareholders' equity.

(ii) Integrated foreign operations and accounts in foreign currencies:

Integrated foreign operations and accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, consolidated balance sheet monetary items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenue and expenses (other than depreciation and amortization, which are translated at the same rates as the related capital assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the year. The resulting gains or losses are included in the consolidated statements of earnings.

Included in selling, general and administrative expenses are foreign exchange losses of $0.5 million (2003 – $3.8 million).

(g) Income taxes:

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax basis of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or a later period.

Future income taxes are recorded at the income tax rates which are expected to apply when the future tax liability is settled or the future income tax asset is realized. Future tax assets are recognized to the extent that realization of these assets is more likely than not. Income tax expense consists of the income taxes payable for the year and the change during the year in future income tax assets and liabilities.

(h) Earnings per share:

The Company uses the treasury stock method for calculating diluted earnings per share.

(i) Stock-based compensation plans:

Effective December 1, 2003, the Company prospectively adopted the amendments to The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The standard was implemented for all stock option grants that will be settled by issuing common shares. The value of option grants is measured on the grant date using a fair value model and is expensed and recorded as contributed surplus over the vesting period. The compensation cost is the fair value of the stock option on the grant date using the Black-Scholes option pricing model.

On the exercise of the stock option, the consideration paid by the employee and the related amount in contributed surplus is credited to share capital.

Stock options that were granted before fiscal 2004 will be accounted for as a capital transaction when exercised and no compensation cost will be recognized.

(j) Guarantees:

As of February 1, 2003, the Company adopted the accounting recommendation on Guarantees, AcG 14, issued by the CICA. The accounting recommendation requires a guarantor to disclose significant information on guarantees it has provided, without regard to whether it will have to make any payments under the guarantees and in addition to the accounting required by Contingencies, Section 3290. As of the year ended November 30, 2004 and 2003, there were no significant guarantees entered into by the Company that would require any additional financial statement note disclosure.

In certain situations, the Company provides performance bonds to ensure installations are carried out in accordance with the agreement. If either the contractor or the Company does not comply with the terms of the agreement, the Company would be liable for payments under the terms of the performance bond. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the financial statements. The amount of performance bonds outstanding at year-end is not significant.

(k) Derivative financial instruments:

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Gain and losses on foreign exchange contracts identified as a hedge of future transactions are deferred and recognized in income when the underlying hedged transaction is recognized.

(l) Shipping and handling:

Amounts billed to clients for shipping and handling of products are recognized as sales in the consolidated statements of earnings. Costs incurred by the Company for shipping and handling are included in cost of sales.

(m) Impairment of long-lived assets:

Effective December 1, 2003, the Company prospectively adopted the new CICA Handbook Section 3063, Impairment of Long-Lived Assets. This recommendation establishes new standards for the recognition, measurement and disclosure of the impairment of long-lived assets. During the year ended November 30, 2004, the Company conducted the test for impairment for a portion of its capital assets and determined that no write-down was required.

(n) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates.

2. RELATED PARTY TRANSACTIONS AND BALANCES:

(a) Substantially all related party transactions occurred with an indirect shareholder, Global Upholstery Co. Limited ("Global"), and entities controlled or significantly influenced by Global.

Transactions between the Company and Global occur at prices that are in accordance with written agreements between the Company and Global. Management believes that the prices and terms at which transactions are conducted with Global are competitive with prices and terms for comparable arm's-length transactions. The Corporate Governance Committee is responsible for and reviews, monitors and establishes all policies for related party transactions.

Related party amounts included in accounts receivable and accounts payable and accrued liabilities are as follows:

	2004	2003
Accounts receivable	$ 4,025	$ 3,305
Accounts payable and accrued liabilities	9,928	6,520

Transactions with related parties are as follows:

	2004	2003
Sales	$ 9,238	$ 13,290
Purchases	45,245	47,876
Other	8,741	8,508

(b) The amounts due to companies controlled or significantly influenced by the controlling shareholders are unsecured, non-interest bearing and payable on demand.

3. INCOME TAXES:

Income taxes have been determined in accordance with the legislation prevailing in Canada and the applicable foreign jurisdictions. The effective income tax rate differs from the basic Canadian combined federal and provincial tax rates as follows:

	2004	2003
Loss before income taxes	$ (18,301)	$ (52,824)
Combined statutory tax rate	41.6%	40.3%
Expected recovery of income taxes	$ (7,613)	$ (21,282)
Increase (decrease) resulting from:		
Canadian federal and provincial rate reductions	1,915	1,578
International rate differences	(3,548)	(3,059)
Increase to valuation allowance	8,108	–
Other differences	647	51
	$ (491)	$ (22,712)
Effective income tax rate	2.7%	43.0%

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at November 30 are presented below:

	2004	2003
Future tax assets:		
Accounts receivable	$ 772	$ 919
Accounts payable and accrued liabilities	511	2,897
	1,283	3,816
Non-capital loss carryforward	54,286	39,363
Valuation allowance	(12,846)	(4,738)
	41,440	34,625
	42,723	38,441
Future tax liabilities:		
Capital assets – differences in accounting and tax net book values	(22,455)	(22,293)
Net future tax asset	$ 20,268	$ 16,148

Future tax benefits for operating loss and tax credit carryforwards are recognized to the extent that realization of these benefits is considered more likely than not. It is considered more likely than not that a benefit of $20.3 million will be realized on these carryforwards. This determination is based on the expectation that related operations will be sufficiently profitable, or various tax, business and other planning strategies will be available to enable the Company to utilize the operating loss and tax credit carryforwards. The Company cannot be assured that it will be able to realize these future tax benefits or that future valuation allowances will not be required.

At November 30, 2004, the Company has the following amounts available to reduce future years' income for tax purposes.

Unused tax losses expiring:	
2009	$ 16,158
2010	34,076
2013	30,649
2023	31,657
2024	14,211
Indefinite	13,359
	$ 140,110

4. CAPITAL ASSETS:

2004	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 8,682	$ –	$ 8,682
Buildings	61,099	10,848	50,251
Computer hardware	28,512	20,158	8,354
Computer software	18,746	11,702	7,044
Manufacturing equipment, office equipment and showrooms	128,888	66,402	62,486
Tools and dies	42,825	15,945	26,880
Leasehold improvements	32,655	22,058	10,597
Patents and trademarks	3,658	1,879	1,779
	$ 325,065	$ 148,992	$ 176,073

2003	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 8,682	$ –	$ 8,682
Buildings	60,732	8,453	52,279
Computer hardware	27,490	17,605	9,885
Computer software	18,464	10,162	8,302
Manufacturing equipment, office equipment and showrooms	129,077	56,675	72,402
Tools and dies	40,435	13,779	26,656
Leasehold improvements	32,348	18,900	13,448
Patents and trademarks	3,278	1,581	1,697
	$ 320,506	$ 127,155	$ 193,351

5. LOAN RECEIVABLE:

In 2003, the Company restructured its international manufacturing operations. As a result of the restructuring, the Company recorded an impairment on the loan of $4 million (NOTE 14).

The loan is due and payable on November 30, 2007, bears interest at 2.25 basis points above the prime rate and is secured against the assets of the borrower.

6. OPERATING LOANS:

At November 30, 2004, Teknion had available secured operating lines of credit of up to $87.2 million (2003 – $76.2 million). Borrowings under these lines of credit bear interest at varying rates ranging from the banks' prime rate plus 0.5% to plus 2.75% per annum. The Company and certain of its subsidiaries have entered into general security agreements and undertaken an assignment of certain assets to secure bank borrowings.

7. LONG-TERM DEBT:

	2004	2003
U.S. \$13.2 million (2003 – U.S. \$13.6 million) mortgage loan, bearing interest at 1.5% over the five-year treasury rate, payable in monthly instalments of \$0.038 million plus interest, secured by a first mortgage lien on real estate of the Company's New Jersey U.S. subsidiary (net book value – U.S. \$17.2 million; 2003 – U.S. \$18.2 million), due October 2012	\$ 15,603	\$ 17,674
U.S. \$1.5 million (2003 – U.S. \$1.9 million) 1998 industrial revenue bonds, bearing interest at the variable seven-day market rate plus 1.5%, principal repayments made monthly to March 1, 2018, secured by a second mortgage on real estate and a charge over book debts of the Company's Minnesota U.S. subsidiary	1,826	2,494
8.2 million (2003 – 10.9 million) Malaysian ringgit term loan, bearing interest at 7%, payable in monthly instalments of 0.10 million Malaysian ringgit, secured by a charge over land, buildings and all assets of the Company's Malaysian subsidiary, due May 2009	2,591	3,756
Various loans with blended monthly repayments, bearing interest at various rates to a maximum of 8.1%, due at various dates to 2008	461	634
	20,481	24,558
Less current portion	2,057	2,130
	\$ 18,424	\$ 22,428

Annual principal repayments on long-term debt are due as follows:

2005	\$ 2,057
2006	2,068
2007	1,314
2008	936
2009	833
Thereafter	13,273
	\$ 20,481

Interest expensed on long-term debt was \$1,293 in 2004 (2003 – \$1,552).

8. SHARE CAPITAL:

	2004	2003
Authorized:		
Unlimited Class A preference shares, non-voting		
Unlimited Class B preference shares, non-voting		
39,919,846 multiple voting shares (2003 – 39,954,646)		
Unlimited subordinate voting shares		
Issued:		
39,919,846 multiple voting shares (2003 – 39,954,646)	$ 5,051	$ 5,055
24,181,410 subordinate voting shares (2003 – 24,131,810)	101,877	101,796
	$ 106,928	$ 106,851

(a) Class A and Class B preference shares:

Class A and Class B preference shares are issuable in series, with other attributes to be determined at the time of issue. The Class A preference shares will rank prior to the Class B preference shares and both will rank prior to the multiple voting shares and subordinate voting shares as to dividends and as to distributions in the event of liquidation, dissolution or winding up of the Company.

(b) Multiple voting shares and subordinate voting shares:

During fiscal 2004, certain shareholders converted 34,800 multiple voting shares (2003 – 104,400) on a one-for-one basis to subordinate voting shares. During the year, 14,800 subordinate voting shares were issued for cash consideration of $76,960 on the exercise of stock options. In fiscal 2003, there were no stock options exercised.

The multiple and subordinate voting shares rank equally on a share-for-share basis as to dividends and as to distributions in the event of liquidation, dissolution or winding up of the Company. The multiple voting shares carry 10 votes per share and are convertible into subordinate voting shares on a one-for-one basis at the option of the holder. The subordinate voting shares carry one vote per share.

(c) Stock option plan:

The Company's stock option plan is for directors, officers, employees and affiliates of the Company. The stock option plan is administered by a committee of the Board of Directors of the Company. The price at the date of grant cannot be less than the market price at issue of the subordinate voting shares on any stock exchange on which the subordinate voting shares are listed. The options have a maximum term of 10 years and are non-assignable, except in certain limited circumstances. The vesting periods of options granted under the stock option plan range from four to five years, as determined by a committee of the Board of Directors of the Company at the time the options are granted. The Board of Directors of the Company may, from time to time, amend or revise the terms of the stock option plan, subject to applicable law and the rules of any stock exchange on which the subordinate voting shares are listed, or may discontinue the stock option plan at any time. The maximum number of subordinate voting shares, which may be issued pursuant to the stock option plan, is 6,072,190 subordinate voting shares.

During the year, the Company granted 75,000 (2003 – 776,500) stock options at an exercise price of $5.35 (2003 – $5.20 to $5.40). Effective December 1, 2003, the Company elected early adoption, on a prospective basis, of the new recommendations issued by the CICA relating to stock-based compensation. In accordance with the new standard, stock options granted after adoption of the standard are measured on grant date using a fair value-based method and expensed over the vesting period. The compensation expense recorded in the year ended November 30, 2004, in respect of stock options granted on or after December 1, 2003, was $37,100 (2003 – nil) based on a four-year vesting period. The counterpart is recorded as contributed surplus. Any consideration paid by employees on exercise of stock options is credited to share capital. The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model as detailed in the table below.

The fair value of the stock options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2004	2003
Risk-free rate of return	4.66%	4.52%
Volatility factor	39%	41%
Expected life of options	10 years	10 years
Options granted	75,000	776,500
Fair value per option granted	$ 3.04	$ 3.05

The following is a summary of the number of subordinate voting shares issuable pursuant to outstanding stock options:

	2004		2003	
	Number of shares	Weighted average price	Number of shares	Weighted average price
Options outstanding, beginning of year	4,534,115	$ 10.55	3,813,365	$ 11.65
Exercise of options	(14,800)	5.20	–	–
Options cancelled	(555,525)	10.55	(55,750)	11.42
Grant of additional options	75,000	5.35	776,500	5.20
Options outstanding, end of year	4,038,790	10.47	4,534,115	10.55

	2004	2003
Weighted average subscription price of outstanding options	$ 10.47	$ 10.55
Number of options exercisable at November 30	2,945,040	2,622,004
Weighted average subscription price of outstanding exercisable options	$ 11.30	$ 11.78

The range of subscription prices for options granted were as follows:

	2004		2003	
	High	Low	High	Low
Grant of options	$ 5.35	$ 5.35	$ 5.40	$ 5.20
Exercise of options	7.60	7.25	–	–

Range of exercise prices	Total options outstanding: Number outstanding, November 30, 2004	Weighted average remaining contractual life (years)		Weighted average exercise price	Total options exercisable: Number exercisable, November 30, 2004		Weighted average exercise price
$ 5.20–$ 8.99	789,450	8.66	$	5.28	174,138	$	5.35
$ 9.00–$12.50	2,448,590	4.19		10.98	2,193,714		11.06
$12.51–$16.00	763,750	6.15		13.76	548,938		13.76
$16.01–$21.20	37,000	6.11		19.39	28,250		19.38
	4,038,790	5.44	$	10.47	2,945,040	$	11.30

9. LOSS PER SHARE:

The following table sets forth the computation of basic and diluted loss per share:

		2004		2003
Numerator for basic and diluted loss per share – loss for the year	$	(17,810)	$	(30,112)
Denominator for basic and diluted loss per share – weighted average shares		64,110,956		64,086,456
Basic and diluted loss per share	$	(0.28)	$	(0.47)

10. COMMITMENTS:

The minimum annual lease payments under long-term operating leases for premises and equipment for the next five fiscal years and thereafter are as follows:

2005	$	14,991
2006		13,430
2007		10,452
2008		7,578
2009		4,161
Thereafter		8,798
	$	59,410

11. SEGMENTED INFORMATION:

Industry:

The Company is considered to operate in one operating segment, that being the design, manufacture and marketing of office systems and related office furniture products.

Geographic:

	2004	2003
Sales (based on location of customer):		
Canada	$ 184,751	$ 197,211
United States	272,438	263,853
International	40,156	41,724
	$ 497,345	$ 502,788
Total assets:		
Canada	$ 251,786	$ 254,050
United States	118,947	116,112
International	37,775	41,963
	$ 408,508	$ 412,125
Capital assets:		
Canada	$ 121,833	$ 132,308
United States	40,554	44,831
International	13,686	16,212
	$ 176,073	$ 193,351
Goodwill:		
Canada	$ 10,124	$ 10,124
United States	18,807	18,807
International	1,943	1,943
	$ 30,874	$ 30,874

12. FINANCIAL INSTRUMENTS:

Teknion operates internationally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign exchange rates. Foreign exchange contracts are used by the Company to manage foreign exchange risk. The Company does not enter into foreign exchange contracts for speculative purposes.

(a) Foreign exchange contracts:

Teknion enters into foreign exchange contracts to limit its exposure to foreign exchange fluctuations on future revenue and expenditure streams. At November 30, 2004, the Company had outstanding foreign exchange contracts representing a commitment to sell U.S. $75.0 million at average rates of exchange of $1.33 (2003 – U.S. $35.0 million at $1.41). The fair value of these contracts was $8.4 million in favour of the Company at November 30, 2004 (2003 – $2.4 million in favour of the counterparties). These contracts mature within 12 months (2003 – 12 months).

(b) Fair values of other financial instruments:

Teknion has evaluated the fair values of its other financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying amounts of cash, accounts receivable, operating loans, accounts payable and accrued liabilities, and due to affiliates approximate fair values due to the short-term nature of these instruments. Long-term debt approximates market value as the interest rate charged on this amount is comparable to the current borrowing rate of the Company.

(c) Credit risk:

The Company, in the normal course of business, is exposed to credit risk from its customers. In addition, Teknion is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company controls this credit risk by dealing with counterparties that are major financial institutions and which the Company anticipates will satisfy their obligations under the contracts.

13. SUPPLEMENTAL CASH FLOW INFORMATION:

	2004	2003
Income taxes paid	$ 2,295	$ 2,369
Income taxes received	402	21,640
Interest paid	3,541	4,087
Interest received	240	490

14. RESTRUCTURING COSTS:

During 2003, the Company restructured its manufacturing operations in Malaysia and the United Kingdom. The total restructuring costs were estimated to be $12.2 million. In Malaysia, the Company consolidated its Tangkak operations into the Company's larger Klang facility. In the United Kingdom, the Company outsourced a substantial portion of its manufacturing and assembly operations, and accordingly has exited a number of leased facilities. As set forth in the table below, in connection with the restructuring, the Company incurred costs related to the closure of facilities and costs of employee severance. The Company also recorded an impairment in the value of certain capital assets and inventory related to the restructuring, as well as an impairment in the value of a loan made by the Company pursuant to a distribution agreement in the United Kingdom. During 2004, the Company's subsidiary in the United Kingdom settled the remainder of its obligations. The obligations were accrued as part of the restructuring charges incurred in fiscal 2003. As a result of the settlements, an accrual of $739,000 was reversed.

The following tables present the pre-tax restructuring charges (recovery) by category:

2004	Severance costs	Facility exit and other related costs	Loan impairment	Capital asset impairment	Write-down of inventory	Total
Restructuring charges (recovery)	$ –	$ (739)	$ –	$ –	$ –	$ (739)

In fiscal 2003, the Company anticipated additional future restructuring charges of $133,000. Due to changes in circumstances, these charges were not incurred.

2003	Severance costs	Facility exit and other related costs	Loan impairment	Capital asset impairment	Write-down of inventory	Total
Restructuring charges	$ 1,163	$ 2,619	$ 4,038	$ 1,510	$ 2,734	$ 12,064
Future restructuring charges	–	133	–	–	–	133
	$ 1,163	$ 2,752	$ 4,038	$ 1,510	$ 2,734	$ 12,197

The following is a summary of the restructuring accrual activity during fiscal 2004 and 2003:

	Severance costs	Facility exit and other related costs	Total
Accrual balance, November 30, 2002	$ –	$ –	$ –
Restructuring charges	1,163	2,619	3,782
Cash payments	(860)	(258)	(1,118)
Accrual balance, November 30, 2003	303	2,361	2,664
Restructuring charges (recovery)	–	(739)	(739)
Cash payments	(237)	(1,465)	(1,702)
Accrual balance, November 30, 2004	$ 66	$ 157	$ 223

CORPORATE INFORMATION

CORPORATE HEADQUARTERS
1150 Flint Road
Toronto, Ontario
M3J 2J5 Canada
Telephone: 416.661.3370

STOCK LISTING
The Toronto Stock Exchange
Ticker Symbol: TKN.SV

AUDITORS
KPMG LLP
Toronto, Canada

ANNUAL MEETING
Tuesday, May 17, 2005
10:00 a.m. (eastern standard time)
Design Exchange
234 Bay Street
Toronto Dominion Centre
Toronto, Ontario
M5K 1B2 Canada

REGISTRAR AND TRANSFER AGENT
SHAREHOLDER INQUIRIES
Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario
M5J 2Y1 Canada
Telephone: 800.332.0095

INVESTOR INFORMATION AND OTHER INQUIRIES
Teknion Corporation
1150 Flint Road
Toronto, Ontario
M3J 2J5 Canada
Telephone: 416.661.3370
Facsimile: 416.661.7970
Email: investor.information@teknion.com

OFFICERS AND DIRECTORS

BOARD OF DIRECTORS

Governor James J. Blanchard
Partner
DLA Piper Rudnick Gray Cary US LLP

Jeffrey M. Blidner
Chairman, Brascan Investments
Brascan Corporation

David Feldberg
President and Chief Executive Officer
Teknion Corporation

Saul Feldberg
Chairman
Global Upholstery Co. Limited

Allen Karp
Chairman, Emeritus
Cineplex Odeon Corporation

Stephen M. Miner
Chairman
Teknion LLC

Christi L. Strauss
President
General Mills Canada Corporation

George S. Taylor
Consultant

EXECUTIVE OFFICERS

David Feldberg
President and Chief Executive Officer

Scott Bond
Chief Financial Officer and Secretary

John Comacchio
Chief Information Officer

Frank Delfino
Senior Vice President and
President, Canadian and International Markets

Ian Madell
Senior Vice President,
Marketing and Product Development

Stephen L. Silver
President, Teknion LLC

Jeff Wilson
Senior Vice President,
Manufacturing and Supply Chain Management

IN THE USA
12000 Horizon Way
Mount Laurel, New Jersey
08054 USA
Telephone: 877.TEKNION
Facsimile: 856.596.8088
Email: info.us@teknion.com

IN EUROPE
101 Goswell Road
London ECIV 7EZ
UK
Telephone: 020.7490.2101
Facsimile: 020.7253.6105
Email: info.eur@teknion.com

OUTSIDE EUROPE AND NORTH AMERICA
1150 Flint Road
Toronto, Ontario
M3J 2J5 Canada
Telephone: 416.661.3370
Facsimile: 416.663.6666
Email: tekintl@teknion.com

IN CANADA
1150 Flint Road
Toronto, Ontario
M3J 2J5 Canada
Telephone: 416.661.3370
Facsimile: 416.661.4586
Email: info.can@teknion.com

FOR INVESTOR INFORMATION
Telephone: 416.661.3370
Facsimile: 416.661.7970
Email: investor.information@teknion.com

teknion.com

CAN/US/INT 04-05

Contessa product design by Giugiaro Design

Contessa is sold under license from Okamura Corporation

Printed in Canada

SO070034

Teknion's commitment to sustainability practices is reflected in our design, manufacturing and daily operations. These initiatives drive our growth and innovation, strengthen client relationships, are good for business and, of course, the environment. We are committed to continually learning from and evaluating our results to achieve our goal of total sustainability.