Sierra Systems Group Inc.

Annual Report 2005

Sierra Systems

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"Throughout our 39 years of business, Sierra Systems has always delivered excellent value to our clients. Our track record and reputation in the industry for delivering what we promise is second to none. We have successfully developed solid, long-term relationships with our clients, which have enabled us to become more knowledgeable in their business opportunities and challenges. This has served Sierra Systems well through economic downturns. As a result, we are respected by our clients who come to rely on us for providing services above and beyond our initial engagements."

Iraj Pourian
President and Chief Executive Officer

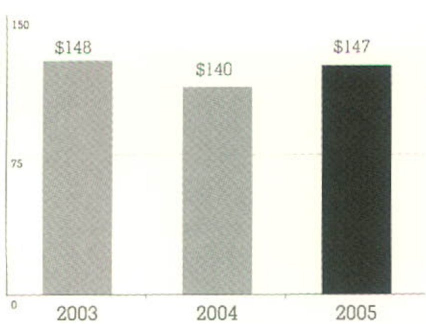
Financial Summary

(all figures in thousands of Canadian dollars except per share figures)

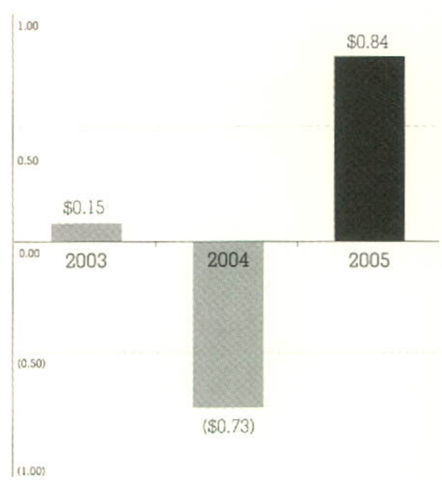
	2003	2004	2005
Services revenue	$ 147,997	$ 139,711	**$ 147,168**
Earnings from operations before restructuring charge	6,599	1,367	**13,987**
Net earnings (loss)	1,417	(7,067)	**8,314**
Cash flow from operating activities	2,125	2,587	**13,737**
Shareholders' Equity	62,931	57,061	**61,292**
Diluted earnings (loss) per share	$ 0.15	$ (0.73)	**$ 0.84**

Services Revenue

(in millions)



Diluted Earnings (loss) Per Share



President's Message

Iraj Pourian
President and
Chief Executive Officer

Dear Shareholders,

Although I have worked for Sierra Systems since 1990, this year is my first as your President and CEO. For our Company, 2005 will be remembered as a year of change. Fortunately, change brings opportunity, and as a result, our confidence in our ability to grow shareholder value is stronger than ever before. I am a great believer in Sierra Systems, and 2005 provides a clear indication to all stakeholders that Sierra Systems can achieve great things despite internal and external challenges.

2005 Highlights

Sierra Systems experienced significant leadership changes at the corporate and operational levels this year. Our Company demonstrated an impressive level of maturity in dealing with these internal challenges. Our focus on the business was clear and unwavering.

Our financial performance in fiscal 2005 improved significantly, compared to 2004. Our revenue for 2005 was $152 million, a 4% increase from 2004. Our upward trend in earnings, however, marks the key success of the year. Despite considerable change and restructuring efforts in 2005, Sierra Systems earned $8.3 million for the year, a real turnaround from our fiscal 2004 results. In fact, Q3 was our most profitable quarter since our initial public offering in 1998. Utilization, an important measure of productivity, was high throughout the year. These results could not have been achieved without the hard work and dedication of our employees across each of our 15 locations.

This year Sierra Systems demonstrated strong leadership as a respected and valued provider of information technology solutions for both public and private sector organizations. Our primary industries, namely Health, Justice, and Government, continue to be our key growth areas, and we are excited by the new opportunities presenting themselves through changes in funding, regulations, and legislation in those sectors. In particular, our Health and Justice businesses are expanding as the need for information sharing capabilities in these areas becomes a growing priority.

Over the year, we have witnessed a growing trend in application outsourcing initiatives. This has fuelled our commitment to growing our Managed Services business, and we are encouraged by our impressive contract wins in both Texas and British Columbia.

Our primary objective in 2005 was to regain profitability, and I am pleased with our progress this year. In addition to improving revenue and profit figures, Sierra Systems' shares also performed well. At the time of writing this letter, our share price is approximately double what it was last year. I thank all of our shareholders for their continued support and confidence.

Continuing our journey in 2006 and beyond

The internal events in 2004 and 2005 have contributed to our go-forward strategy for 2006 and beyond. Our focus is clear: grow the business, grow revenue, and create exceptional shareholder value. Our restructuring efforts in 2004 and early 2005 enabled us to refocus our efforts to bring our costs more in line with our business volume and risks. We have also developed a strategic plan to guide us forward. Our main objective is to aggressively and profitably grow the business.

As we enter a new fiscal year, we are encouraged by the positive signs we are seeing in our market space. In addition to the growing IT requirements in Health and Justice, we also see great opportunities for Sierra Systems in the Enterprise Solutions market. With the acquisition of PeopleSoft by Oracle, many organizations will be faced with new complexities as they seek to upgrade their enterprise applications and create new functionality. Sierra Systems is well positioned to provide those organizations using either PeopleSoft or Oracle software, with the services necessary to ensure a smooth transition. We will further capitalize on the positive turnaround in IT by aggressively growing our Managed Services business to offer application support and services to both private and public sector organizations.

We are continuing to focus on our tradition of successfully winning repeat business from our long-term clients. At the same time, we are enhancing our business development capabilities to provide much more rigor and discipline in how we pursue new business opportunities. This plan is supported by the creation of four teams of subject matter experts in our four key growth areas - Justice, Government, Health, and Enterprise Solution Services. We believe there is tremendous growth potential for Sierra Systems in each of these sectors. These teams are led by our former CFO Caroline Dunn, who was recently appointed Executive Vice President responsible for our growth strategies. We believe the creation of a senior position, teams of experts, and concentrated focus on expanding our partnerships with other vendors in our market space, will result in successful growth.

Throughout our 39 years of business, Sierra Systems has always delivered excellent value to our clients. Our track record and reputation in the industry for delivering what we promise is second to none. We have successfully developed solid, long-term relationships with our clients, which has enabled us to become

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more knowledgeable in their business opportunities and challenges. This has served Sierra Systems well through economic downturns. As a result, we are respected by our clients who come to rely on us for providing services above and beyond our initial engagements.

To further enhance our commitment to our clients and support our growth strategies, we are consolidating our services into three broad areas that will make us a total solution provider: Business Consulting, Solution Delivery, and Managed Services. Not only will we continue to enhance Sierra Systems' methodologies in each of these service areas, we will align these methodologies with industry best practices such as ITIL, PMBOK, and RUP. Our clients will enjoy an even higher level of service excellence to ensure greater operational effectiveness.

Retaining and attracting highly capable employees is the bedrock of our success. We want to strengthen our approach to human capital to support our growth and allow Sierra Systems to attract, retain, and motivate the very best and the brightest in our field. To that end, we have appointed Dan Thomson as our Vice President Human Capital. Dan brings a deep understanding of our business from his 20 years of experience in our branch line operations. He will be responsible for working closely with operations and the executive management team to develop and execute a company-wide leadership program and incentive plan in line with our growth strategies.

Sound financial management is a key factor in supporting the growth of our business. Our Company has a healthy balance sheet, no debt, and sound financial management practices. We have the financial strengths and resources to drive our business plans forward. Our Company is also committed to maintaining the highest standards in corporate governance practices and fully meeting the ongoing control requirements under Bill 198 in Canada.

These strategies, together with the organizational realignment we carried out during 2005 will ensure we are building the infrastructure necessary for more aggressive growth rather than pure organic growth.

In closing, I would like to thank the Board for their advice and continued support; our clients for their ongoing commitment to our Company; and, our valued employees whose dedication to the business was the major contributing factor to our improved results this year. In particular, I am grateful for the commitment of our shareholders. Your Company will continue to work hard at improving performance year after year.

Iraj Pourian
President and Chief Executive Officer
November 18, 2005

"Our primary industries, namely Health, Justice, and Government, continue to be our key growth areas, and we are excited by the new opportunities presenting themselves through changes in funding, regulations, and legislation in those sectors."

Iraj Pourian

Chairman's Message

Peter F. Webb
Chairman of the Board

To Our Shareholders

The fiscal year ending September 30, 2005 was an eventful one for your Company. Profitability and growth were restored. Of particular importance, profitability in our United States operations was achieved. Several large and financially difficult projects were successfully completed. A highly experienced senior management team is now in place under the leadership of our recently appointed CEO, Iraj Pourian. Iraj has also realigned our organization to facilitate sharing across the Company of knowledge, skills, resources, and methodologies.

A great deal was accomplished operationally in the past year. The Company has a sharper focus on execution and risk management. There is also a clear focus on business development in our key growth areas — Justice, Health, Managed Services, and Enterprise Solution Services — where Sierra Systems has established a strong reputation and enjoys many competitive advantages. I believe the Company is well positioned for the future.

The Board of Directors has implemented changes to improve our Corporate Governance and bring us in line with current best practices. The Chairman and CEO roles were split, Board Members are obligated to meet certain ownership requirements, and all members of the Board except the CEO are independent. The independent Board members meet privately without management at each regular Board meeting. We have also updated and strengthened the responsibilities of each of our Board committees — Audit, Compensation, and Corporate Governance.

On behalf of the Board, I would like to thank Ian Reid for his thoughtful and effective leadership of the Company as our interim President and CEO.

We are particularly proud of our employees who have embraced the changes and achieved such excellent business results. We are equally grateful to our clients and shareholders who maintained their confidence in us while we managed our way through this period. All of us at Sierra Systems are committed to continuing to earn your support.

Peter F. Webb
Chairman of the Board
November 18, 2005

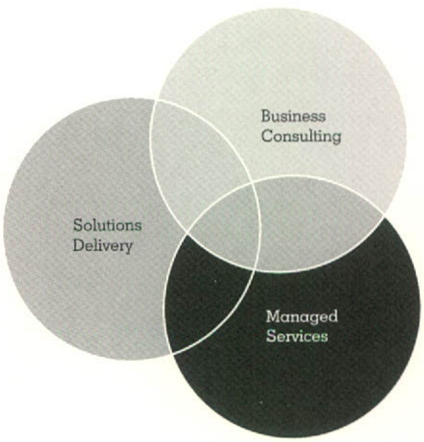
Management's Discussion & Analysis

of Financial Condition and Results of Operations (in CDN Dollars)

The following discussion and analysis is the responsibility of management and is as of November 10, 2005. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee, which is comprised exclusively of independent directors. The Audit Committee reviews this disclosure and recommends its approval by the Board of Directors. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes. The financial information reported herein has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and is presented in Canadian dollars unless otherwise noted. Additional information relating to us (which is not incorporated by reference herein) can be found on SEDAR at www.sedar.com.

Forward-Looking Statements

This MD&A contains forward-looking statements involving risks and uncertainties including, but not limited to, changes in the market and changes in the economy. Such statements reflect the Company's view as of November 10, 2005 with respect to future events, and are subject to certain risks, uncertainties, and assumptions. Given these uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under Business Risks in this MD&A.



Our Business

Operating in North America, Sierra Systems delivers superior technology and business consulting services to our clients that strive to improve our clients' operational performance. To achieve this, Sierra Systems intends to be a "Total Solution Provider" through the provision of three services:

Business Consulting

Assisting clients to attain their business objectives and improve organizational efficiency.

Solutions Delivery

Designing and implementing technology-based business solutions that deliver results.

Managed Services

Maintaining business/service continuity through the implementation of best practices and tools expertise.

Our services are provided through our branches and are supported by common processes and shared support services. This environment permits managed growth, while keeping authority and responsibility with the client-focused operational teams that deliver our services.

Sierra Systems operates in six industry segments — Justice, Health, Government, Telecommunications, Utilities, and Financial Services & Insurance. In these areas, the Company derives competitive advantage from a deep functional knowledge of the client's area of business. Within these industry segments, Justice, Health, and Government are our main areas of focus.

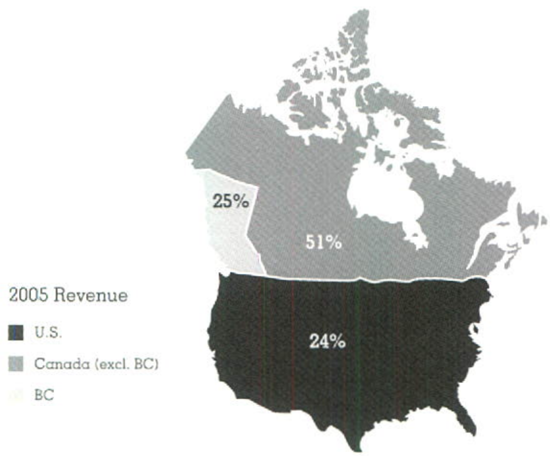
Justice

Focused in the areas of law enforcement, crown/prosecution, courts, correctional institutions as well as other justice agencies.

Health
Focused in the area of health related registries, records management systems and electronic health records applications.

Government
Sierra Systems provides a significant diversity of services in this industry segment at the county, provincial, state, and federal levels.

Geographically, we have grown from a British Columbia focused enterprise to an organization that operates throughout Canada and in certain locations in the United States.



Our Vision
We envision Sierra Systems as a long-term business enterprise providing superior value to all our stakeholders. To achieve this, we need to work as one company leveraging all operating locations' strengths for the benefit of all our stakeholders.

Our mission is to improve the operational performance of our clients by delivering superior information technology and business consulting services. In doing so, we intend to continue building long-term relationships with our clients.

Our Company has a long-standing set of values that guide how we operate:

- Integrity & Honesty
- Respect & Loyalty
- Service Excellence
- Corporate Citizenship

Sierra Systems is committed to maintaining the highest standards in corporate governance practices.

Our Strategy
The Company has developed a strategic plan to drive revenue and earnings growth in excess of industry average. The plan is structured around three views of our business; Client, Geography, and Service Offering.

From a client/industry perspective, Sierra Systems will continue to provide leadership to clients in the government sector, particularly in the areas of public health and justice. As such, the majority of our revenue will be derived from the public sector. Sierra Systems also provides strong industry knowledge and specialization to private sector clients throughout North America in the areas of financial services and telecommunications together with localized expertise in sectors such as energy and natural resources.

We will maintain our focus on North America and our current locations will provide the operating base for the majority of our future business. In the coming three years, we expect strong growth from our U.S. based business and from central Canada. The Company's revenue distribution will remain predominantly Canadian.

Sierra Systems has for the past 39 years assisted our clients in attaining their business and policy objectives through consulting services and solutions delivery. We will maintain our strength in these areas and expand our services offerings in both business consulting and policy thought leadership, and also in the deployment of a comprehensive suite of managed services offerings - from Infrastructure Management Consulting to the full management of the life cycle of an application. This may include taking full responsibility for that application (outsourcing).

The Company has created specific initiatives to pursue its strategic goals. The organization has been aligned to these new objectives, including the creation of a specific executive role to drive the linkage of strategic intent to operational execution.

The creation of specific Human Capital initiatives is currently underway to establish a tight linkage of performance and execution to our goals.

Key Performance Drivers

Each year we set targets to advance our goals and drive solid financial results. We use key performance indicators ("KPIs") to measure and report on our progress against these goals. Our KPIs will evolve over time to ensure they are always relevant indicators of our progress towards achieving our Company's long-term strategic, operational and financial goals. Sierra Systems' core KPIs are as follows:

Utilization

Utilization is the ratio of hours charged to clients divided by available hours, expressed as a percentage. This KPI measures capacity utilization management. Simply put, Sierra Systems' compensation costs are essentially fixed. With higher utilization, higher revenue can be earned from the same employee base. This leads to improved gross margins.

Compensation Costs as a Percentage of Services Revenue

Sierra Systems' most valued asset and our most significant expense is our people. This KPI is a productivity indicator, and measures the relationship of this cost to our services revenue.

Other Costs as a Percentage of Services Revenue

Sierra Systems' Other costs include travel, promotion, education, and recruitment costs. This KPI measures the relationship of these costs to services revenue.

General & Administrative Costs as a Percentage of Services Revenue

Sierra Systems' General & Administrative Costs include office salaries, rent, professional fees, software maintenance fees, and communication costs. This KPI measures the relationship of these costs to services revenue.

Voluntary Staff Turnover

This measure reports the number of employees that voluntarily terminated their employment with the Company during the fiscal year. It is expressed as a percentage and is calculated by dividing the voluntary terminations by the average headcount for the fiscal year.

Average Days Sales in Trade Accounts Receivable

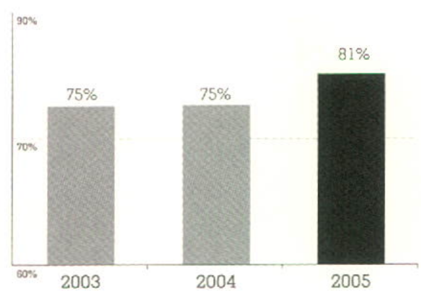
This liquidity measure provides an estimate of the number of days, on average, that it takes for clients to pay their account. It is calculated on quarterly trailing revenue.

Factors That Shaped 2005

1) High Utilization

Utilization for the year was 81%, which was higher than past years. High utilization is a significant contributor to strong profits for two main reasons: high utilization drives higher revenue and also reduces the cost of non-billable time.

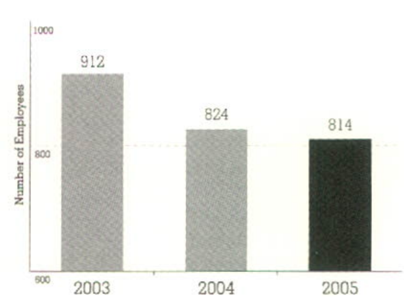
Utilization



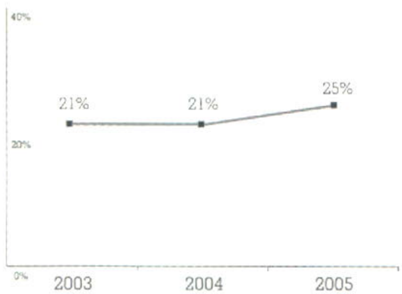
2) Employee vs. Subcontractor Mix

Subcontractors provide a significant extension of Sierra Systems' operational capacity. The Company uses subcontractors to augment our resource pool with specialized skills or to add capacity during peaks in delivery requirements. In 2005, our business continued the trend towards a higher usage of subcontractors, with subcontractor costs amounting to 25% of the total compensation costs for the year.

Total Headcount at Year End



Subcontractor Costs as a Percentage of Total Compensation Costs



3) U.S. Operations – Profitable

For the five fiscal years before 2005, our U.S. operations have sustained losses. In 2004, our U.S. operations were restructured, and included in this restructuring was the closure of the Washington, D.C. branch; rationalization of lease space in Los Angeles; staff reductions; and management changes. In 2005 our U.S. operations were profitable.

4) Favorable Tax Position – U.S. Operations

As previously noted, in past years, our U.S. operations have sustained losses. In 2004, given the prolonged period of losses in the U.S., a tax valuation allowance of $5.7 million was recorded in relation to those losses. No provision for taxes was recorded on the income from our U.S. operations in 2005.

5) Delivery Risk Management Processes Strengthened

Sierra Systems' Delivery Risk Management Group continued to improve and refine our risk management processes throughout 2005. We developed further refinements to delivery risk management processes throughout the project life cycle and strengthened compliance with our risk management disciplines.

6) Cost Control Efforts in "G&A" Have Been Successful

Sierra Systems' General & Administrative expenses tend to be more fixed in nature as compared to our people costs. In 2005, the Company maintained a strong focus of cost control in this area. Our General & Administrative costs decreased by 6% this year, and our G&A costs as a percentage of services revenue decreased from 14.2% in 2004 to 12.7% in 2005.

7) Strong Growth in our Managed Services Business

This service area is a key growth area for our business, and in 2005, the Company focused on increasing Managed Services revenue as a percentage of total revenue. Revenue from this service offering increased to approximately 15% of total services revenue in 2005.

8) Location Mix – U.S. Operations

Our U.S. revenue as a percentage of total revenue remained flat in 2005, although, within the U.S. operations there were significant changes in business volume. As noted previously, our Washington, D.C. location was closed in Q4 of 2004. The loss of revenue from this operation was offset by significant growth in our Austin, Texas operation.

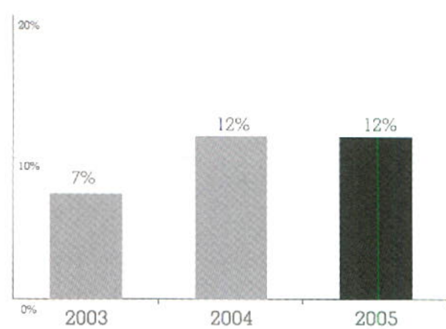
9) Share Re-Purchase Program

At times, Sierra Systems' shares trade at prices that, in the Company's opinion, may not fully reflect their value. As a result, from time to time, acquiring common shares represents an attractive and desirable use of available funds. On February 8, 2005, the Company initiated its second normal course issuer bid and throughout 2005, purchased for cancellation 472,560 common shares at an average price of $9.74 (as noted in note 9(e)).

10) Voluntary Staff Turnover

In the second quarter of 2005, we completed a re-classification of our turnover statistics to better measure this key performance indicator. The revised method is presented below together with the reclassified prior year statistics. While the ratio was unchanged from 2004, ideally this measure should fall below 10%.

Headcount Turnover - Voluntary



Condensed Financial Information

The following table is prepared in accordance with Canadian GAAP and provides selected financial information for 2003 – 2005. This information should be read together with the audited consolidated financial statements including the related notes for the years ended September 30, 2005, 2004, and 2003.

Statements of Operations

Year ended September 30, (in thousands, except per share amounts)		**2005**		**2004**		**2003**
Revenue:						
Services	$	**147,168**	$	139,711	$	147,997
Product sales		**933**		1,166		2,923
Total revenue excluding reimbursements		**148,101**		140,877		150,920
Earnings (loss) before income taxes		**12,581**		(1,269)		4,285
Provision for income taxes		**4,309**		5,980		2,880
Equity earnings of Donna Cona Inc.		**42**		182		12
Net earnings (loss)	$	**8,314**	$	(7,067)	$	1,417
Earnings (loss) per common share:						
Basic	$	**0.86**	$	(0.73)	$	0.15
Diluted	$	**0.84**	$	(0.73)	$	0.15

Balance Sheet

As at September 30, (in thousands)		**2005**		**2004**		**2003**
Net cash	$	**7,017**	$	833	$	3,793
Total current assets		**46,028**		40,333		44,786
Total assets		**79,205**		74,346		81,735
Total current liabilities		**17,708**		16,933		18,364
Total liabilities		**17,913**		17,285		18,804
Shareholders' Equity		**61,292**		57,061		62,931

Summary of Changes to Shareholders' Equity

Year ended September 30, (in thousands)		**2005**		**2004**		**2003**
Shareholders' Equity - Beginning of year		**57,061**		62,931		61,389
Net earnings (loss) for the year		**8,314**		(7,067)		1,417
Issue of capital stock		**1,149**		2,871		125
Shares purchased and cancelled		**(4,604)**		-		-
Stock-based compensation adjustment		**(691)**		-		-
Change in contributed surplus		**1,224**		-		-
Change in cumulative translation adjustment		**(1,161)**		(1,674)		-
Shareholders' Equity - End of year	$	**61,292**	$	57,061	$	62,931

Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized, and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of September 30, 2005 and concluded that our current disclosure controls and procedures are effective.

2005 Financial Overview

Our financial performance in 2005 was much improved over last year's results. Services revenue, our primary business line, increased 5% from 2004, and our profitability was much improved this year with diluted earnings per share of $0.84 in 2005 as compared to a loss of $0.73 per share in 2004. Earnings from operations in 2005 were $12.7 million as compared to a loss from operations of $1.2 million in 2004.

Revenue analysis

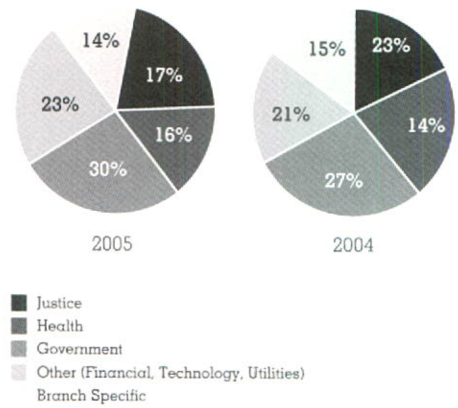
Our revenue can be analyzed by reference to our:

- Services
- Industry segments
- Geographical segments

Our Solutions Delivery business remained our most dominant service offering in 2005, although there has been notable revenue growth in both our Business Consulting and Managed Services offerings this year. For 2005, Business Consulting revenue increased to approximately 10% of total revenue and Managed Services revenue increased to approximately 15% of total revenue.

In terms of industry segments, services revenue in 2005 was very consistent with the previous year.

Specialty Practices



Geographically, services revenue from our Canadian branches was consistent with 2004 levels. Our BC and Ontario locations together earned 52% of total revenue. U.S. revenue as a percentage of total revenue remained similar to 2004 levels. The strengthening of the Canadian dollar in fiscal 2005 had a negative effect on the Canadian dollar equivalent of U.S. revenue this year. The impact was approximately $3.3 million for the year.

	2005	2004
British Columbia	**25%**	23%
Alberta	**11%**	11%
Manitoba	**7%**	6%
Ontario	**27%**	28%
Atlantic	**6%**	4%
United States	**24%**	28%
	100%	100%

Compensation costs

Sierra Systems' compensation costs include salaries, incentive compensation, and benefits related to our billable and operational support headcount. These costs also include the expense associated with the use of subcontractors. Our compensation costs are our most significant expense, and on average comprise about 75% – 80% of the Company's total operating expense.

In 2005, compensation costs decreased by $4.8 million or 4% as compared to 2004. The decrease was mainly attributable to:

- The closure of our Washington, D.C. operation — <$6.1 million>

  This operation was closed in the fourth quarter of 2004.

- Decrease in base salary costs — <$2.8 million>

  Mainly due to lower headcount and lower severance costs in 2005, offset by higher variable compensation costs and the effect of expensing stock options this year.

- Decrease in the CDN$ cost of our U.S. operations due to the change in the foreign currency rate as compared to 2004 — <$2.0 million>

  As the Canadian dollar strengthens, the Canadian dollar cost of our U.S. compensation expense is reduced

These reductions were offset by:

- Increase in subcontractor costs — $4.6 million

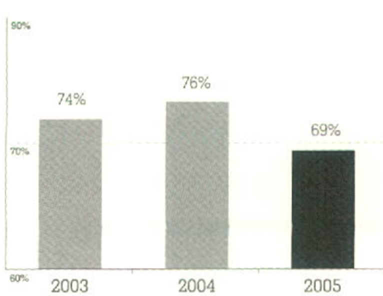
  The Company increased the use of subcontractors to fulfill project deliverables this year. As noted previously, subcontractor costs were 25% of total compensation in 2005 (2004 – 21%).

- Increase in profit sharing costs — $1.5 million

  Largely due to the increased profitability in 2005.

Compensation costs as a percentage of services revenue is a key performance indicator for our Company. In 2005, this indicator was stronger at 69%. Higher services revenue, higher utilization, and lower compensation costs in 2005 were strong contributors to the improved performance of this KPI.

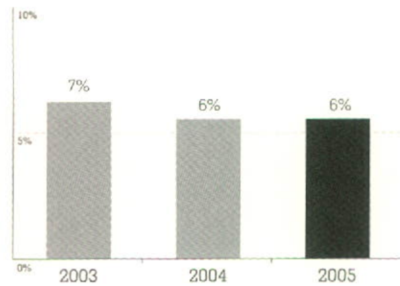
Compensation Costs as a Percentage of Services Revenue



Other costs

Include non-recoverable travel, promotion, education, and recruitment costs. In 2005 these costs increased by 4%, largely due to increased recruiting efforts during the year. Other costs as a percentage of services revenue, however, remained constant at 2004 levels.

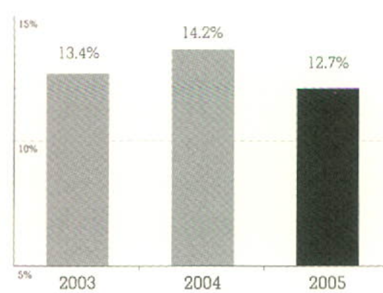
Other Cost as a Percentage of Services Revenue



General & Administrative costs ("G&A")

Include administrative salaries, indirect overhead, rent, and communication costs. G&A costs decreased by 6% in relation to fiscal 2004. Lower facility rent costs were a significant contributor to the positive variance this year, and were a result of rationalized space requirements in certain locations. Additional cost savings were also experienced in our indirect overhead costs, with notable reductions in our professional fees, office supplies, bad debt expense, and administrative travel. Our general and administrative costs as a percentage of services revenue improved to 13% this year from 14% last year.

G&A Costs as Percentage of Services Revenue



Amortization costs

Amortization costs increased by $0.3 million or 7% from 2004.

Restructuring

The restructuring activity is described in note 10 to the consolidated financial statements. On November 15, 2004, the former Chief Executive Officer ("CEO") left the Company and an interim CEO (Ian Reid) was appointed, who undertook further changes in the executive team.

Taxation and other Non-Operating Items

The tax valuation allowance recorded in fiscal 2004 will make the Company's tax rate sensitive to profits from the Company's U.S. operations, as no provision will be recorded relating to income generated from the U.S. operations. The effective tax rate of 34.3% from earnings before taxes in the current year reflects a $0.9 million benefit from income generated in the Company's U.S. operations, which is not exposed to a current tax provision. Note 8 of the consolidated financial statements provides a detailed analysis of the difference from the statutory rate of 35.25%.

As noted in note 9(b) of the consolidated financial statements, in 2005, the Company applied Section 3870 of the CICA Handbook and began expensing the costs associated with stock-based compensation. Costs of $533,000 are included in compensation costs on the consolidated statement of earnings and are included in contributed surplus on the consolidated balance sheet.

Outstanding Share Information as at November 10, 2005

Authorized	
Common shares	100,000,000
Preferred shares	50,000,000
Issued and outstanding	
Common shares	9,454,167
Options outstanding	799,000

Quarterly Results and Review of Fourth Quarter Performance

(in thousands, except per share amounts)

	2005					2004				
	Q1	**Q2**	**Q3**	**Q4**	**Total**	Q1	Q2	Q3	Q4	Total
Revenue										
Services	**$ 34,068**	**$ 37,458**	**$ 39,093**	**$ 36,549**	**$ 147,168**	$ 32,336	$ 38,036	$ 36,098	$ 33,241	$ 139,711
Product sales	**164**	**159**	**434**	**175**	**933**	169	847	87	63	1,166
Total revenue excluding reimbursements	**$ 34,232**	**$ 37,617**	**$ 39,527**	**$ 36,724**	**$ 148,101**	$ 32,505	$ 38,883	$ 36,185	$ 33,304	$ 140,877
Earnings (loss) before income taxes	**$ 2,474**	**$ 3,337**	**$ 4,019**	**$ 2,751**	**$ 12,581**	$ (1,231)	$ 893	$ 235	$ (1,166)	$ (1,269)
Provision for income taxes	**820**	**1,200**	**1,385**	**904**	**4,309**	(276)	4,902	500	854	5,980
Equity earnings of Donna Cona Inc.	**21**	**1**	**20**	**-**	**42**	62	40	35	45	182
Net Earnings (loss)	**$ 1,675**	**$ 2,138**	**$ 2,654**	**$ 1,847**	**$ 8,314**	$ (893)	$ (3,969)	$ (230)	$ (1,975)	$ (7,067)
Earnings (loss) per common share										
Basic	**$ 0.17**	**$ 0.22**	**$ 0.28**	**$ 0.19**	**$ 0.86**	$ (0.10)	$ (0.41)	$ (0.02)	$ (0.20)	$ (0.73)
Diluted	**$ 0.17**	**$ 0.21**	**$ 0.27**	**$ 0.19**	**$ 0.84**	$ (0.10)	$ (0.41)	$ (0.02)	$ (0.20)	$ (0.73)

Fourth Quarter Results

Services revenue, the Company's primary business line, increased 10% or $3.3 million from the same period last year. The increase was driven primarily by $2.9 million higher revenue reported in our Canadian operations. Our U.S. operations reported 14% growth in US$ denominated revenue in the quarter as compared to the same quarter last year, although the strengthening Canadian dollar reduced this increase in Canadian dollar terms to 4% or $0.4 million.

Compensation costs increased by $1.7 million or 7% as compared to the same quarter last year. The increase was due to increased salary costs of $1.6 million resulting mainly from higher variable compensation and severance costs. The Company also increased the use of subcontractors to fulfill project deliverables this quarter, which resulted in a $2.1 million increase. Consistent with this increase, subcontractor costs as a percentage of total compensation increased to 28%, from 22% in the same quarter last year. These increases were offset by the closure of the Washington, D.C. operation in September 2004, which resulted in a $1.5 million savings as compared to the same period last year. Additionally, U.S. compensation costs were also $0.5 million lower due to the strengthening of the Canadian dollar. Compensation costs as a percentage of services revenue improved slightly to 71% as compared to 73% in Q4 2004. Stronger utilization in the quarter was a key contributor to the improvement. Utilization this quarter was 77% as compared to 73% in Q4 2004.

General & Administration costs decreased by $0.7 million or 14% compared to last year. Lower rent costs resulting from a rationalization of space requirements contributed to this variance. Additional cost savings were also experienced in several of our indirect overhead costs. G&A costs as a percentage of services revenue improved significantly to 11% this quarter from 15% in 2004.

The above factors increased earnings from operations (before restructuring charge) in Q4 2004 by $1.4 million to $2.8 million this quarter.

The effective tax rate of 32.9% from earnings before taxes in the current quarter reflects a $0.2 million benefit from income generated in the Company's U.S. operations not exposed to a current tax provision.

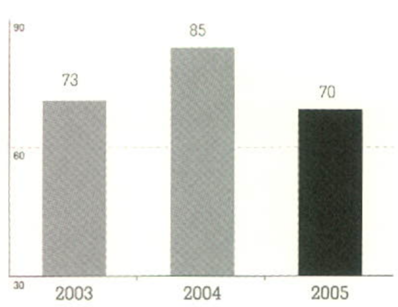
Financial Capability

Sierra Systems' capital requirements are primarily for general corporate purposes. On September 30, 2005, the Company had cash on hand of $7.0 million. Net cash flow from operations for 2005 was $13.7 million, an increase of $11.2 million from 2004.

Cash, accounts receivable, and work-in-progress ("WIP") are our main sources of working capital. WIP is a function of large deliverable-based projects, and represents services provided that have not yet been billed. WIP is valued at its estimated net realizable value. Our WIP balance increased $2.0 million in 2005 to $8.1 million. This increase was due primarily to the timing of certain project deliverables close to year-end and resulted in a use of working capital this year.

The key performance measure of accounts receivable is average days sales in trade accounts receivable calculated on quarterly trailing revenue. This measure improved this year to 70 days at year end 2005.

Average Days Sales in Trade Accounts Receivable



The Company has no provision for doubtful accounts. This is consistent with its historical experience and with its client profile. Subsequent to the fiscal year, the majority of the accounts receivable were collected.

Sierra Systems' requirement for capital assets is generally limited to personal computers, network applications, servers supporting our own employees, and furniture and fixtures for leased space. In fiscal 2005, the investment in capital assets was $3.9 million, $1.7 million higher than 2004. This increase was due mainly to leasehold improvements acquired as part of two office relocations and the acquisition of project management software. Sustaining capital expenditures for the Company's operations are estimated to be in the range of $2.5 – $3.0 million.

As described in note 7 of the consolidated financial statements, the Company has unused operating bank lines of credit of CDN $20.1 million and US $0.5 million with interest charged at bank prime rates plus 0.25%. This is currently a low cost potential source of capital. Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with terms of three months or less. Eligible investments are government-issued securities or indebtedness of corporations with a debt rating of A or R-1 low.

The Company believes that its cash resources, together with the cash provided by future operations and available borrowings under its line of credit, will be sufficient to meet its working capital needs and capital expenditures.

The following table provides a summary of the contractual obligations and payments due for each of the next four years and thereafter:

Contractual Obligations (in thousands)	Operating Leases
Less than 1 year	2,590
1 - 2 years	4,303
3 - 4 years	3,286
After 4 years	1,025
Total	**11,204**

Critical Accounting Estimates

Sierra Systems Group Inc. prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Our significant accounting policies are contained in note 2 to the consolidated financial statements. Some of these policies involve critical accounting estimates because they require us to make subjective or complex judgements about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. We have discussed the development, selection, and application of our key accounting policies, and the critical accounting estimates and assumptions they involve with the Audit Committee of the Board of Directors, and the Committee has reviewed the disclosures described in this section.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements. Significant estimates include, but are not limited to, the determination of project expenditures and revenue for contracts accounted for on the percentage of completion basis, income tax valuation allowances, goodwill impairment tests, and the useful lives and valuation of intangible assets.

Revenue Recognition

In the case of fixed price projects, revenue is recognized on the basis of the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage of completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the project. This method requires estimates of costs and profits over the entire term of the project. Management regularly reviews underlying estimates of project profitability. Revisions to estimates are reflected in the consolidated statement of operations in the period in which the facts that give rise to the revision become known.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income when a change in tax rates is substantively enacted. Future income tax assets are evaluated periodically. Management determines the likelihood that a future tax asset will be realized and will assess whether an allowance should be provided if realization is considered "more likely than not".

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized but instead is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs an annual impairment test of its goodwill based on the market capitalization of the Company and an analysis of valuation metrics of comparable companies. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the earnings statement before extraordinary items and discontinued operations.

Intangible Assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed on an ongoing basis. Intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss, if any, is recognized in income for the excess.

Stock-based Compensation

The Company has a stock-based compensation plan whereby stock options are awarded to certain directors and employees of the Company. To account for the compensation costs arising from these awards, the Company uses the fair value method. In accordance with this method, the fair value of an award is determined using the Black-Scholes option pricing model on the date the award is granted and is amortized over the vesting period. This pricing model requires estimates and assumptions regarding the number of options that will eventually vest and the expected life of the options. In the event that an option expires or is cancelled unvested, any previously recorded expense is reversed in the period when the unvested option is cancelled.

Foreign Currency Translation

The Company has one U.S. subsidiary, Sierra Systems Inc., which is classified as a self-sustaining foreign operation since it is financially and operationally independent. For consolidation purposes, its revenue and expenses are translated at average exchange rates prevailing during the period. The assets and liabilities are translated at the exchange rate in effect at the balance sheet date, and any translation gains or losses are accounted for in the cumulative translation adjustment component of shareholders' equity.

Recent Accounting Changes

Stock-based Compensation

In November 2003, the Canadian Institute of Chartered Accountants ("CICA") re-issued Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments." The revised standard requires the adoption of the fair value based method for all stock-based awards and is effective for fiscal years beginning on or after January 1, 2004. The standard also eliminates pro forma disclosure with respect to stock options and requires compensation cost to be recognized in the financial statements. The Company adopted this standard for its current fiscal year beginning October 1, 2004. As permitted by the standard, the Company elected retroactive application for stock-based awards to employees granted from October 1, 2002 to September 30, 2004. This application resulted in an adjustment to opening retained earnings rather than a restatement of prior period financial statements.

Asset Retirement Obligations

In March 2003, the CICA issued Handbook Section 3110, "Asset Retirement Obligations." The standard provides guidance on the recognition, measurement, and disclosure of liabilities for asset retirement obligations and the associated retirement costs. It also applies to legal obligations pertaining to the retirement of tangible long-lived assets due to acquisition, construction, development, or normal operations. When a liability for an asset retirement obligation exists, the standard requires a company to record the fair value of the liability in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Company adopted this standard for its current fiscal year beginning October 1, 2004, and has determined that it has a nominal liability relating to asset retirement obligations as at September 30, 2005.

Variable Interest Entities

In September 2004, the CICA finalized Accounting Guideline 15, "Consolidation of Variable Interest Entities," which establishes a new consolidation model to determine whether interests an enterprise holds in a variable interest entity ("VIE") should be consolidated. The guideline defines a VIE and requires a VIE to be consolidated if the enterprise is at risk of absorbing the majority of the VIE's expected losses or is entitled to receive the majority of the VIE's residual returns. The Company adopted this guideline effective January 1, 2005, and determined it has no variable interest entities, therefore there is no impact for fiscal 2005.

Business Risks

Understanding and managing risk are important parts of Sierra Systems' strategic planning. In previous years, we identified and analyzed risks facing the Company, ranked them by likelihood of occurrence and significance of consequences, and determined the most effective ways to manage this risk universe.

The Company has implemented a comprehensive process to identify, analyze, and mitigate our risk. Our Board of Directors are actively involved in this process.

Sierra Systems' risk can be categorized two ways:

Internal Risk

These risks relate primarily to Sierra Systems' operations. They include delivery, human capital, and reputation risk.

External Risk

These risks relate to the economy and the general business environment in which we operate. They include business environment, financial, regulatory, and environmental risk.

Our principal business risks are as follows:

Fixed Price Contracts and Delivery Management

A portion of Sierra Systems' contracts are fixed price contracts. There is a risk in all fixed price contracts that the Company will be unable to deliver under the contract within the time specified and at a cost to the Company that is equal to or less than the contract price. The technical nature and sophistication of the systems delivered under these contracts may require amendments to be negotiated from time to time, subject to agreed contract change processes. In the absence of any agreement to such amendments that increase the contract value or extend delivery time, clients may be in a position to terminate the contract for defaults or to demand repayments or penalties. To mitigate this risk, the Company has in place a Corporate Risk Management team to review project bids, contract negotiations and ongoing project performance, and to initiate and complete project audits as required. Notwithstanding that the Company, together with the client, constantly monitors these projects to determine early warnings related to these risks, a contract may end up in a default or in an overrun. A significant contract overrun that is caused by the actions or inactions of the Company could affect the Company's results of operations and financial condition.

Market and Competition

There are inherent risks in the market for information technology and consulting services. The industry is undergoing changes in the source of labor to produce core elements of these services, notably development services. Also the trend to outsourcing, the transfer by a client of ownership of an application, function or entire business process to a third party, continues apace. The commoditization and globalization of certain elements of the market is not trivial. Sierra Systems believes that continued growth in this sector will require a broadening of its service offerings in management services and the extension of its operational capability to include the use of offshore development resources. To the extent that the Company is unable to expand its service offerings or to penetrate this market in a timely and cost-effective manner, or achieve cost-effective pricing for its services, the Company's business growth could be adversely affected. Many competitors have substantially greater resources than the Company.

Government Contracts

In fiscal 2005, approximately 60% of the Company's total annual services revenue was derived from contracts with federal, state/provincial, and local governments in both Canada and the U.S. Changes in government policies, priorities, or funding levels through agency or program budget reductions, the impositions of budgetary constraints, or the lack of government appropriations could have a materially adverse affect on the Company's financial condition or results of operations. Furthermore, government contracts may be terminated or suspended by the government at any time with or without cause. There can be no assurances that any contracts with the government will not be terminated or suspended in the future. Although the Company attempts to ensure that government contracts have, as standard provisions, termination for convenience language, which reimburses the Company for costs incurred, the payments may not provide full compensation, in which case there may be an impact on the operations and financial condition of the Company.

Dependence on Key People

A key contributor to Sierra Systems' growth and continued success is our ability to attract and motivate the right people, in the right place and at the right time. There is significant competition for such people. The Company is mitigating this risk by developing a company-wide human capital plan designed to ensure its continued ability to attract and retain the best and the brightest people in the business. This plan will address resourcing and recruitment, employee vs. subcontractor mix, compensation and benefits, training and development, and succession planning, with the aim of ensuring our employees feel Sierra Systems is a great place to work and to ensure our operations have access to the right people as the business moves forward.

Potential for Liability

There is a risk that the Company's systems may contain errors or defects or fail to perform. The Company currently contractually attempts to limit its liability for damages arising from its provision of services. While this is true for the majority of the Company's contracts today, such limitations of liability may not have been included in all of the Company's contractual arrangements in the past. Where such limitations have been included, there can be no assurance that they will be enforceable in all circumstances and will protect the Company from liability for damages. Furthermore, litigation regardless of contracts could result in substantial cost to the Company; divert management's attention and resources from the Company's operation and result in negative publicity that may impair the Company's ongoing marketing efforts. Although the Company purchases computer services errors and omission insurance, there is no assurance that this insurance will cover all possible claims or that claims will not exceed the insurance limit.

Technological Changes

The markets in which Sierra Systems operates are characterized by changing technology and evolving industry standards. These factors not only create opportunities for new service offerings but also change the expectations of our clients. The Company's ability to respond to these changes is partially enabled by the breadth of services we offer, which are independent of specific technologies. These include many of our services around the implementation and ongoing management of information technology-based business solutions. However, for our services which are affected by change, our industry specialization and participation in industry standard setting initiatives puts us on the forefront and allows us to anticipate new opportunities. The Company has also recognized the need for ongoing process improvement and has adopted industry standard processes for software development, project management and service management. Despite decades of experience in meeting client system requirements with the latest technological solutions, there can be no assurance that the Company will be successful in continuing to identify, develop and market service offerings that respond to technological change, evolving standards or individual client standards or requirements.

Currency Exchange Rate Risk

The Company has operations in the U.S. and is therefore exposed to fluctuations in the value of the U.S. dollar against the Canadian dollar. Also, the U.S. operations are currently deemed to be self-sustaining and therefore any translation adjustment of the U.S. asset base is recorded in shareholders' equity. However, if there is a material change in circumstances and if operations require the consistent support of the Canadian entity, then the translation adjustment would be recorded in the statement of operations.

Volatility of Quarterly Results

The Company's model is to sustain consistent long-term profitable growth; however, it contracts with its clients on an engagement-by-engagement basis that can lead to short-term fluctuations in revenue. This model is subject to quarterly variation that is not necessarily predictable. There may be reductions in operating results for a particular quarter that could result in losses for such a quarter.

Risk to Reputation

In the professional services industry, reputation is a critical asset, thus potential damage to that reputation is one of a company's greatest risks. Any of the risks identified above could damage Sierra Systems' reputation, which in turn, can result in lack of client confidence, employee apathy, legal liability, and difficulties in raising capital.

2006 Outlook

For 2006 our focus is clear — to aggressively and profitably grow the business. As we look forward to next year, we are encouraged by the growth prospects in the economy, our industry, and in particular, our business. 2005 was a year of change for Sierra Systems. These changes were made to position the Company for stronger growth going forward. Additional changes were also made to the executive team in early fiscal 2006 to build the foundation for aggressive growth in both revenue and shareholder value. In 2006, we will build the foundation to support our future growth. Our operational strategies will be further developed, and will be refined as necessary to create stability in the business and align our organization to achieve the strategy noted earlier in this report.

During 2006, our operational priorities will include:

- Expanding our Business Consulting and Managed Services capabilities across the organization.
- Focusing on the development of our Health and Justice industry segments.
- Developing refinements to our compensation plans to ensure a tight linkage of compensation to the achievement of our goals.
- Continued development of our core long-term client relationships.

Sierra Systems has developed a strategic plan to drive revenue and earnings growth in excess of industry average. The Company's results can vary considerably from quarter to quarter. The results of our first quarter will be negatively impacted by short-term performance issues in one Canadian branch.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Management's Responsibility

November 18, 2005

The consolidated financial statements of **Sierra Systems Group Inc.** have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Company's independent auditors, PricewaterhouseCoopers LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report is included on the following page.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed entirely of outside directors. This committee reviews the consolidated financial statements and the Management's Discussion and Analysis and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.

Iraj Pourian

President and
Chief Executive Officer

Warren Beach

Vice President, Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Sierra Systems Group Inc.

We have audited the consolidated balance sheets of Sierra Systems Group Inc. as at September 30, 2005 and 2004 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 September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
Novemeber 4, 2005

Consolidated Balance Sheets

As at September 30, 2005 and 2004

(in thousands of Canadian dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 7,017	$ 973
Accounts receivable	28,470	31,109
Work-in-progress	8,078	6,067
Prepaid expenses	2,463	2,184
	46,028	40,333
Intangible assets (note 4)	514	1,131
Property and equipment (note 5)	8,666	8,703
Goodwill	23,997	24,179
	$ 79,205	$ 74,346
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	$ -	$ 140
Accounts payable and accrued liabilities	15,110	14,203
Deferred revenue	1,706	1,911
Income taxes payable	892	670
Capital lease obligation	-	9
	17,708	16,933
Future income taxes (note 8)	205	352
	17,913	17,285
Shareholders' Equity		
Capital stock (note 9(a))	43,192	44,191
Contributed surplus	1,224	-
Retained earnings	19,711	14,544
Cumulative translation adjustment	(2,835)	(1,674)
	61,292	57,061
	$ 79,205	$ 74,346

Commitments and contingencies (note 13)

Approved by the Board of Directors

J Giff

John A. Vivash

J. Ian Giffen
Director

John A. Vivash
Director

Consolidated Statements of Retained Earnings

For the years ended September 30, 2005 and 2004

(in thousands of Canadian dollars)

		2005		2004
Retained earnings - Beginning of year	$	14,544	$	21,611
Shares purchased and cancelled (note 9(e))		(2,456)		-
Stock-based compensation adjustment (note 9(b))		(691)		-
Net earnings (loss) for the year		8,314		(7,067)
Retained earnings - End of year	$	19,711	$	14,544

Consolidated Statements of Earnings

For the years ended September 30, 2005 and 2004

(in thousands of Canadian dollars except per share and share figures)

		2005		2004
Revenue				
Services	$	147,168	$	139,711
Product sales		933		1,166
Reimbursements (note 2)		3,852		5,054
		151,953		145,931
Expenses				
Compensation costs		101,867		106,617
Other costs		8,490		8,154
Product costs		817		970
Reimbursable expenses (note 2)		3,852		5,054
		115,026		120,795
Gross profit		36,927		25,136
General and administration		18,697		19,789
Amortization (note 6)		4,243		3,980
Restructuring charge (note 10)		1,249		2,580
Earnings (loss) from operations		12,738		(1,213)
Foreign exchange loss		(226)		(49)
Other income (expense)		69		(7)
Earnings (loss) before income taxes		12,581		(1,269)
Provision for (recovery of) income taxes (note 8)				
Current		4,456		2,799
Future		(147)		3,181
		4,309		5,980
Earnings (loss) before equity accounted investee		8,272		(7,249)
Equity earnings of Donna Cona Inc.		42		182
Net earnings (loss) for the year	$	8,314	$	(7,067)
Basic earnings (loss) per share	$	0.86	$	(0.73)
Diluted earnings (loss) per share	$	0.84	$	(0.73)
Weighted average number of common shares outstanding - basic		9,626,311		9,642,694
Weighted average number of common shares outstanding - diluted		9,872,126		9,642,694

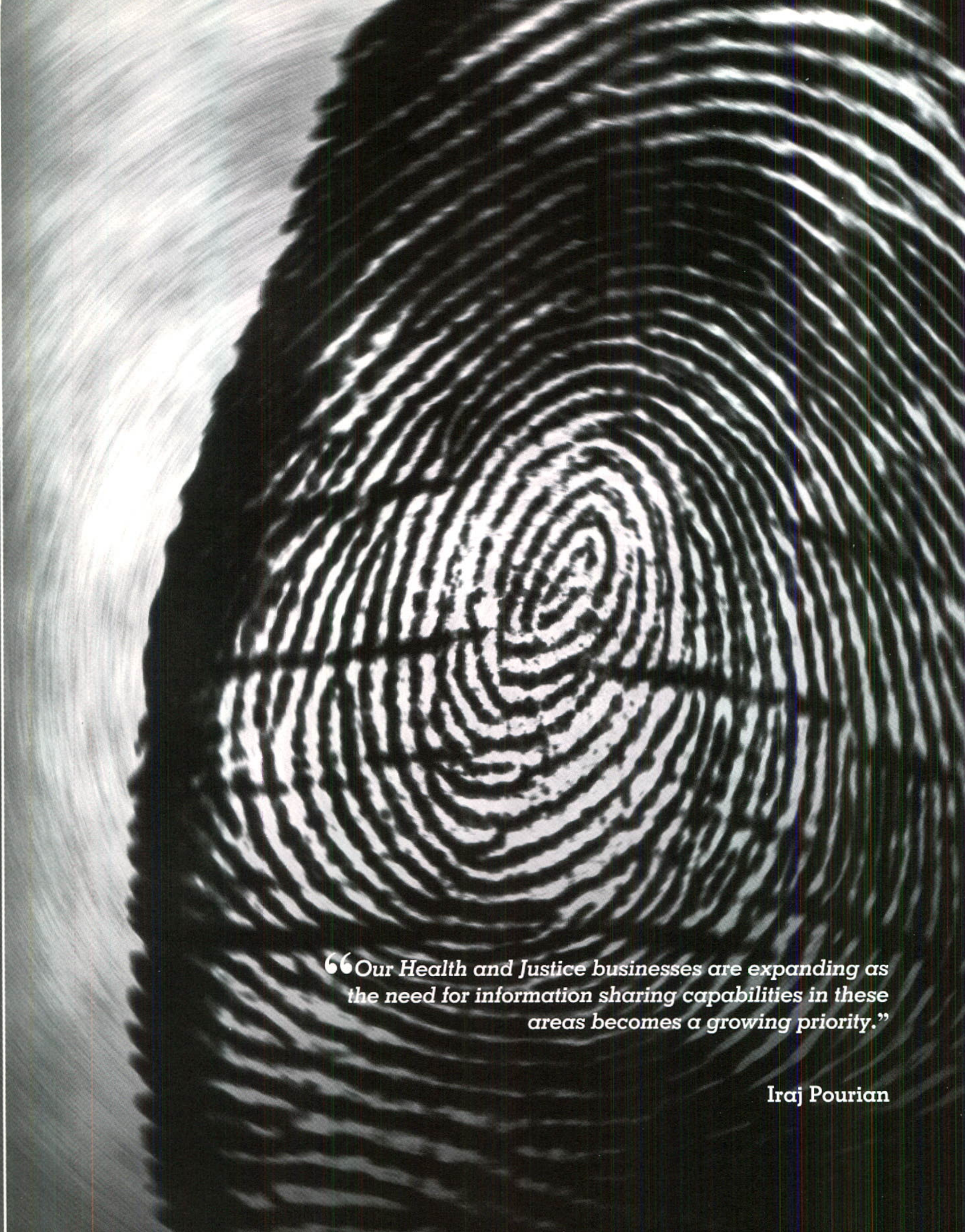
Consolidated Statements of Cash Flows

For the years ended September 30, 2005 and 2004

(in thousands of Canadian dollars)

		2005		2004
Cash flows provided by (used in)				
Operating activities				
Net earings (loss) for the year	$	**8,314**	$	(7,067)
Items not affecting cash				
Amortization		**4,243**		3,980
Future income taxes		**(147)**		3,181
Loss on disposal of property and equipment		**130**		324
Stock-based compensation charge (note 9(b))		**533**		-
		13,073		418
Net change in non-cash working capital items relating to operations		**664**		2,169
		13,737		2,587
Financing activities				
Shares issued (note 9(a))		**1,283**		288
Shares purchased and cancelled (note 9(e))		**(4,604)**		-
Shares purchased for Long-Term Incentive Plan		**(345)**		(35)
Repayment of capital lease obligation		**(9)**		(36)
		(3,675)		217
Investing activities				
Purchase of property and equipment		**(3,854)**		(2,110)
Business acquisitions (note 3)		**-**		(3,517)
		(3,854)		(5,627)
Effect of foreign exchange on translation		**(24)**		(137)
Increase (decrease) in cash and cash equivalents		**6,184**		(2,960)
Cash and cash equivalents - Beginning of year		**833**		3,793
Cash and cash equivalents - End of year	$	**7,017**	$	833
Represented by				
Cash and cash equivalents		**7,017**		973
Bank indebtedness		**-**		(140)
	$	**7,017**	$	833

Supplementary cash flow information (note 16)


"Our Health and Justice businesses are expanding as the need for information sharing capabilities in these areas becomes a growing priority."
Iraj Pourian

Notes to Consolidated Financial Statements

September 30, 2005 and 2004

(amounts in tables are in thousands of Canadian dollars except per share and share figures)

1. Nature of operations

Sierra Systems Group Inc. (the "Company"), based in Vancouver, British Columbia, provides a full range of information technology services that enhance the competitive position of its clients throughout North America.

2. Summary of significant accounting policies

Generally accepted accounting principles

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

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Principal operating subsidiaries are Sierra Systems Consultants Inc. and Sierra Systems Inc. All intercompany transactions have been eliminated. The Company's interest in Donna Cona Inc. ("DC") was recorded using the equity method.

Revenue recognition

The Company provides a broad range of information technology consulting services to its clients through either time and materials, fixed price, or managed services projects.

In the case of time and materials projects, revenue is recognized as the services are performed, when a contractual arrangement exists, the Company's fee is determinable and collection is reasonably assured.

In the case of fixed price projects, revenue is recognized on the basis of the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage of completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the project. This method requires estimates of costs and profits over the entire term of the project. Management regularly reviews underlying estimates of project profitability. Revisions to estimates are reflected in the consolidated statement of earnings in the period in which the facts that give rise to the revision become known.

The Company also provides managed services which include the operation, support, and optimization of business applications subsequent to the applications' development. Services revenue related to managed services under fixed price contracts is recognized on a straight-line basis over the term of the arrangement, regardless of the timing of the amounts billed.

Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Project losses are measured by the amount by which the estimated costs of the project exceed the estimated total revenue from the project.

Work-in-progress represents services provided that have not yet been billed and is valued at estimated realizable value.

Deferred revenue includes billings in advance of services performed.

Product revenue is recognized when the product has been delivered to the customer, the fee is determinable, no significant vendor obligations remain and the collection of the agreed upon fee is reasonably assured.

Reimbursements, including those relating to travel and other out-of-pocket expenses, are recorded as "Reimbursements" revenue on the consolidated statement of earnings and the corresponding expense is included in costs of services as "Reimbursable expenses".

Translation of accounts of foreign subsidiaries

The Company's U.S. subsidiary is classified as a self-sustaining foreign operation. Revenue and expenses are translated at average exchange rates prevailing during the period. The assets and liabilities of the U.S. operations are translated at the exchange rate in effect at the balance sheet date, and any translation gains or losses are accounted for in a separate component of shareholders' equity.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and/or highly liquid short-term interest bearing securities with terms at the date of purchase of three months or less.

Intangible assets

The Company's intangible assets relate to a favorable contract entered into on July 1, 2003 and customer relationships resulting from the acquisition of Eastbridge Consulting Incorporated and its subsidiary, Eastech Advanced Development Incorporated. The contract is amortized over its four-year term on a straight-line basis, while the customer relationships are amortized over their economic life of 44 months on a straight-line basis (note 4).

Intangible assets are tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the assets may be impaired. An impairment loss is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value.

Property and equipment

Property and equipment are carried at cost, less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets at the following rates:

Computer software	3 years
Computer hardware	4 years
Enterprise application software	8 years
Furniture and equipment	8 years
Leasehold improvements	over the remaining life of the lease

An impairment loss for each of the above long-lived assets is established using a two-step process, with the first step determining when an impairment is recognized, and the second step measuring the amount of the impairment. An impairment is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition, and is measured as the amount by which the asset's carrying amount exceeds its fair value.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performed an annual impairment test of its goodwill for each reporting unit to which goodwill applies, based on (a) the market capitalization of the Company and (b) an analysis of valuation metrics of comparable companies, and has determined that no goodwill impairment charge is required.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted earnings per share. Under this method, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive stock options are applied to repurchase common shares at the average market price for the period. Stock options are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates relate to the determination of percentage of completion of projects, estimated project costs and revenue for contract revenue recognition and estimates in relation to accrued liabilities and future income tax balances. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Stock-based compensation plans

In November 2003, the Canadian Institute of Chartered Accountants ("CICA") re-issued Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments. " The revised standard requires the adoption of the fair value based method for all stock-based awards effective for fiscal years beginning on or after January 1, 2004. The Company adopted this new standard for its current fiscal year beginning October 1, 2004, with retroactive application for stock-based awards granted to employees on or after October 1, 2002. As permitted by the standard, prior period financial statements have not been restated. The application of the standard resulted in a $691,000 first quarter adjustment to opening retained earnings.

The Company accounts for its stock-based compensation using the fair value method. The fair value of an award is determined using the Black-Scholes option pricing model on the date the award is granted and is amortized over the vesting period. In the event an option expires or is cancelled unvested, any previously recorded expense is reversed in the period when the unvested options are cancelled.

The Company has three stock-based compensation plans described in note 9:

a) Under the Employee Share Ownership Plan ("ESOP"), a 15% subsidy provided by the Company is recognized as compensation expense when the shares are purchased.

b) Under the stock option plan, compensation expense is recognized when the fair value of the stock option award is amortized over the vesting period.

c) Under the Long-Term Incentive Plan, common share based awards are recognized as compensation expense on a straight-line basis over the vesting period.

Asset retirement obligation

In March 2003, the CICA issued Handbook Section 3110, "Asset Retirement Obligations." The new standard provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated retirement costs. It applies to legal obligations pertaining to the retirement of tangible longlived assets from acquisition, construction, development or normal operations. The standard requires the Company to record the fair value of the liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Company adopted this standard effective October 1, 2004 and has determined that it has a nominal liability relating to asset retirement obligations as at September 30, 2005.

Variable interest entities

In September 2004, the CICA finalized Accounting Guideline 15, "Consolidation of Variable Interest Entities," which provides clarification on the consolidation of variable interest entities. The guideline defines variable interest entities ("VIE") and requires a VIE to be consolidated if the Company is at risk of absorbing the majority of the VIE's expected losses or is entitled to receive the majority of the VIE's residual returns. The Company adopted this guideline effective January 1, 2005 and has determined that the Company has no Variable Interest Entites and therefore there is no impact for fiscal 2005.

3. Business acquisitions

Eastbridge Consulting Incorporated

On January 1, 2004, the Company acquired all of the outstanding shares of Eastbridge Consulting Incorporated ("Eastbridge") and its subsidiary, Eastech Advanced Development Incorporated ("Eastech"), for a total consideration of $5,948,000. The two companies provide information technology consulting services and are headquartered in Halifax, Nova Scotia. The Company began recording the results of operations of the acquired entities on the effective date of acquisition. The acquisition was accounted for using the purchase method, with none of the amount recorded as goodwill being deductible for tax purposes. The fair value of the common shares issued as consideration was determined using the average closing share price on the Toronto Stock Exchange over the 10 working days ended December 24, 2003. The purchase price was allocated to the fair value of the assets acquired and liabilities assumed as follows:

Net assets at fair values		
Current assets	$	1,356
Current liabilities		(1,235)
Property and equipment		277
Intangible assets		683
Goodwill		4,867
Cost of acquisition	**$**	**5,948**
Consideration		
Cash (including acquisition costs)		3,517
Common shares (342,892 shares)		2,431
	$	**5,948**

Pursuant to the acquisition of Eastbridge and Eastech on January 1, 2004, consideration of $1,167,000 in cash and 164,528 shares (note 9(c)) are held in escrow with scheduled release dates to certain vendors contingent upon their employment with the Company: January 1, 2006 - $632,000 (89,182 shares), and January 1, 2007 - $535,000 (75,346 shares).

During the second quarter of fiscal 2005, the Company determined that it was entitled to a reduction of the purchase price of the acquired entities based on certain working capital requirements. The Company received a return of the purchase consideration in the amount of $182,000 which was recorded as a reduction of goodwill.

4. Intangible assets

						2005
		Cost		**Accumulated amortization**		**Net**
Customer relationships with an economic life of 44 months	$	683	$	322	$	361
Subcontracting agreement from Donna Cona Inc.		856		703		153
	$	1,539	$	1,025	$	514

						2004
		Cost		**Accumulated amortization**		**Net**
Customer relationships with an economic life of 44 months	$	683	$	138	$	545
Subcontracting agreement from Donna Cona Inc.		813		227		586
	$	1,496	$	365	$	1,131

5. Property and equipment

						2005
		Cost		**Accumulated amortization**		**Net**
Computer hardware	$	13,021	$	11,122	$	1,899
Computer software		6,396		5,307		1,089
Enterprise application software		2,661		615		2,046
Furniture and equipment		7,426		5,616		1,810
Leasehold improvements		4,001		2,179		1,822
	$	33,505	$	24,839	$	8,666

						2004
		Cost		**Accumulated amortization**		**Net**
Computer hardware	$	12,558	$	9,799	$	2,759
Computer software		5,756		4,836		920
Enterprise application software		2,033		380		1,653
Furniture and equipment		7,652		5,292		2,360
Leasehold improvements		2,924		1,913		1,011
	$	30,923	$	22,220	$	8,703

Included in property and equipment are assets purchased under capital leases with a cost of $309,000 (2004 - $309,000) and accumulated amortization of $294,000 (2004 - $251,000).

6. Amortization

		2005		2004
Amortization of property and equipment	$	3,583	$	3,654
Amortization of customer relationships		184		138
Amortization of subcontracting agreement from Donna Cona Inc.		476		188
	$	4,243	$	3,980

7. Bank indebtedness

The Company has revolving bank credit facilities of $20,100,000 and US$500,000 which are secured by a general security agreement over all assets of the Company and bear interest at bank prime rate plus 0.25%. The US$500,000 facility is guaranteed by the Company until December 31, 2005 (note 13). The credit facilities include covenants that require the Company to maintain certain financial ratios.

8. Income taxes

		2005		2004
Earnings (loss) before income taxes	$	12,581	$	(1,269)
Expected provision (recovery) based on a tax rate of 35.25% (2004 - 36.10%)		4,435		(458)
Increase (decrease) resulting from				
Non-deductible expenses		650		322
Foreign tax differential		74		192
Canadian statutory rate differential		94		92
Change in valuation allowance for U.S. net operating loss carry-forwards		(929)		6,004
Tax recovery realized		-		(425)
Other		(15)		253
Income tax provision	$	4,309	$	5,980

As at September 30, 2005, the Company's future tax assets and liabilities were as follows:

	2005				2004			
		U.S. companies		Canadian companies		U.S. companies		Canadian companies
Differences in working capital deductions for tax and accounting purposes	$	(2,444)	$	164	$	(1,727)	$	61
Property and equipment		(12)		(309)		248		(432)
Goodwill		-		(60)		-		19
Loss carry-forwards		7,838		-		8,307		-
Valuation allowance		(5,382)		-		(6,828)		-
Total net future tax assets (liabilities)	$	-	$	(205)	$	-	$	(352)
Comprising								
Non-current asset				-				-
Current liability				-				-
Non-current liability				(205)				(352)
			$	(205)			$	(352)

The following table provides details of net operating loss carry-forwards of Sierra Systems Inc.:

Expiry date	Loss carry-forwards US$
2020	1,879
2021	681
2022	3,988
2023	5,009
2024	4,889
2025	439
	16,885

9. Capital stock and stock options

a) Capital stock

Authorized

100,000,000 common shares without par value
50,000,000 preferred shares without par value

Issued

	2005 Common shares		2005 Amount	2004 Common shares		2004 Amount
Balance - Beginning of year	**9,746,842**	**$**	**44,191**	9,344,843	$	41,320
Issued pursuant to the ESOP	**26,118**		**182**	39,881		282
Exercise of options	**161,300**		**1,101**	1,000		6
Issued for acquisition (note 3)	**-**		**-**	342,892		2,431
Shares purchased for Long-Term Incentive Plan	**(40,053)**		**(345)**	(7,100)		(35)
Long-Term Incentive Plan shares vested	**28,140**		**211**	25,326		187
Shares purchased and cancelled	**(472,560)**		**(2,148)**	-		-
Balance - End of year	**9,449,787**	**$**	**43,192**	9,746,842	$	44,191

b) Stock options

The Company has a stock option plan which grants to directors and certain employees of the Company the option to purchase up to 1,312,900 common shares of the Company. The exercise price of each option is determined to be the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options generally vest over three to five years.

For the year ended September 30, 2005, the total stock-based compensation charge was $533,000 (2004 - $nil), which has been included in compensation cost on the consolidated statement of earnings. Of this cost, $301,000 (2004 - $nil) relates to the granting of 412,000 (2004 - 146,200) options to employees during the year, and the balance relates to the amortization of previous awards granted prior to October 1, 2004.

The retroactive application of CICA Handbook Section 3870 in the first quarter required an adjustment to opening retained earnings of $691,000. This amount relates to stock-based compensation charges for stock-based awards granted to employees on or after October 1, 2002 to September 30, 2004, which were previously only disclosed on a pro forma basis and are now included in contributed surplus on the consolidated balance sheet.

The following assumptions were used in the Black-Scholes option pricing model:

	2005	**2004**
Dividend yield	**0%**	0%
Expected volatility	**31% - 36%**	35% - 43%
Risk-free interest rate	**3.2% - 3.8%**	2.3% - 3.2%
Expected life (years)	**1 - 4**	1 - 4
Weighted average grant date fair value	**$2.58**	$2.41

The following table summarizes the movement in options outstanding under the plan:

		2005		**2004**
	Share options outstanding	**Weighted average exercise price ($)**	**Share options outstanding**	**Weighted average exercise price ($)**
Balance - Beginning of year	**850,300**	**10.36**	1,196,460	14.32
Options granted	**412,000**	**7.97**	146,200	6.49
Options exercised	**(161,300)**	**6.84**	(1,000)	6.35
Options expired	**(165,000)**	**20.56**	(442,560)	19.43
Options cancelled	**(110,000)**	**6.98**	(48,800)	13.85
Balance - End of year	**826,000**	**8.27**	850,300	10.36

The following table provides details of options outstanding at September 30, 2005:

		Options outstanding			**Options exercisable**
Range of exercise price ($)	**Number of options**	**Weighted average contractual life (years)**	**Weighted average exercise price ($)**	**Number of options**	**Weighted average exercise price ($)**
4.80 - 4.95	70,000	4.2	4.92	38,000	4.94
6.00 - 6.90	103,600	2.6	6.51	44,600	6.32
7.00 - 7.75	343,200	2.8	7.39	197,200	7.55
8.00 - 8.53	101,000	2.3	8.07	47,500	8.06
9.00	60,000	5.4	9.80	-	-
10.55 - 12.25	111,000	2.8	10.79	27,000	11.54
13.00 - 24.00	37,200	0.3	18.12	37,200	18.12
	826,000	2.9	8.27	391,500	8.50

c) **Shares held in escrow**

	Balance September 30, 2004	Added during the year	Released during the year	Balance September 30, 2005
Acquisition of Eastbridge Consulting Incorporated	253,710	-	89,182	164,528

The common shares held in escrow relating to the acquisition of Eastbridge will be released on January 1, 2006 and 2007 (note 3).

d) **Employee Share Ownership Plan ("ESOP")**

The ESOP permits all full-time employees of the Company to purchase common shares through payroll deductions. Shares are purchased on the open market quarterly at prevailing market prices with a 15% subsidy from the Company via funds paid into a trust account. During the year, the Company contributed $58,000 (2004 - $74,000) and issued 26,118 shares (2004 - 39,881) pursuant to this plan. The contributed amount has been included in compensation costs in the consolidated statement of earnings. The weighted average grant date fair value of the shares granted under this plan during the year was $7.02 (2004 - $7.07).

e) **Shares purchased and cancelled**

On February 8, 2005, the Company initiated its second normal course issuer bid. Under the bid, the Company has the right to purchase for cancellation up to a maximum of 491,707 common shares over the following 12 months through the facilities of the Toronto Stock Exchange. This represents approximately 5% of the Company's outstanding shares. During the year, the Company acquired 472,560 shares at an average cost of $9.74. The average assigned value of these shares at cancellation was $4.54. For each cancelled share, the amount by which cost exceeded the assigned value has been recorded as an adjustment to retained earnings. For the year ended September 30, 2005, the total adjustment to retained earnings was $2,456,000.

f) **Long-Term Incentive Plan**

Certain key employees are provided with common share-based awards. The funding for awards under this plan is paid into a trust account, which purchases common shares of the Company on the open market. The shares are recorded as treasury stock and are presented as a reduction of capital stock. For participating employees, full vesting occurs upon three years of service.

Compensation expense is recognized on a straight-line basis over the vesting period and amounted to $153,000 (2004 - $183,000). During the year, the Company provided funding of $345,000 (2004 - $35,000) that was used to acquire 40,053 (2004 - 7,100) of the Company's common shares. The weighted average grant date fair value of the shares granted during the year was $7.58 (2004 - $6.83). At September 30, 2005, 79,941 shares were held in treasury and committed to employees under this plan.

10. Restructuring charge

	2005		2004	
	Charged during the year	Payable at September 30	Charged during the year	Payable at September 30
Workforce reduction	$ 1,249	$ -	$ 1,341	$ 1,075
Lease termination	-	-	973	463
Other	-	-	266	64
	$ 1,249	$ -	$ 2,580	$ 1,602

The fiscal 2005 restructuring is primarily due to the Chief Executive Officer having left the Company and to additional changes to the executive team. No further terminations in connection with this restructuring occurred, and all amounts have been fully paid as of September 30, 2005.

In the fourth quarter of fiscal 2004, the Company restructured its operations to improve its financial performance. The restructuring activities included closing the Washington, D.C. branch, reducing the workforce and rationalizing its office space in California. The workforce reduction charge consisted primarily of severance and other related benefits resulting from the termination of employees. No further terminations in connection with this restructuring occurred, and all amounts were paid during fiscal 2005. The Company gave notice to terminate its Los Angeles lease space and incurred a termination fee of US$733,678 (CA$973,003), of which 50%, or US$366,839 (CA$486,502), was paid upon notice to the landlord. The termination fee was fully expensed in fiscal 2004 and the balance was paid during the third quarter of fiscal 2005.

11. Earnings (loss) per share

Basic earnings (loss) per share are calculated based upon the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share calculations, if dilutive, include the effect of common stock options using the treasury stock method. The calculation of basic and diluted earnings (loss) per share is as follows:

	2005	2004
Basic earnings (loss) per share		
Net earnings (loss)	$ 8,314	$ (7,067)
Weighted average number of common shares outstanding	9,626,311	9,642,694
Basic earnings (loss) per share	$ 0.86	$ (0.73)
Diluted earnings (loss) per share		
Net earnings (loss)	$ 8,314	$ (7,067)
Weighted average number of common shares outstanding	9,626,311	9,642,694
Dilutive instruments	245,815	-
Total shares	9,872,126	9,642,694
Diluted earnings (loss) per share	$ 0.84	$ (0.73)

The computation of diluted earnings (loss) per common share does not include 208,200 options (2004 - 850,300) as they were anti-dilutive.

12. Investment in Donna Cona Inc.

In August 2002, the Company entered into an agreement with DC (formerly Donna Cona II Inc.) to relinquish its 49% interest in DC through four equal instalments over a four-year period. The instalments commenced on July 1, 2003, at which time the Company began using the equity method to account for its remaining interest. The final instalment was due on July 1, 2006.

In September 2005, the Company returned its remaining interest in Donna Cona Inc. ahead of schedule for a nominal value, as it was determined that the investment in DC was non-core to the Company's business. Effective September 30, 2005 the Company held a 0% interest (2004 - 32%) in Donna Cona Inc.

During the year, the Company recorded revenue of $1,847,000 (2004 - $2,140,000) from a subcontracting agreement with DC, of which $348,000 was included in accounts receivable at September 30, 2005 (2004 - $366,000).

13. Commitments and contingencies

The Company is committed to minimum annual lease payments on its premises, excluding operating costs, as follows:

2006	$ 2,590
2007	2,401
2008	1,902
2009	1,748
2010	1,538
2011 and thereafter	1,025
	$ 11,204

The Company has posted a US$6,000,000 performance bond related to a project in the U.S. The bond will expire upon satisfactory completion of the project.

The Company has letters of credit of US$1,100,000 outstanding. Of this, US$600,000 is pledged as collateral for the performance bond and the balance guarantees the Company's U.S. bank revolving credit facility.

During the year, the Company incurred $4,894,000 (2004 - $5,309,000) for rent expense.

14. Business segment information

The Company has twelve branches that operate in two geographical regions, Canada and the United States. Each branch engages in business activities and generates its own discrete financial information. As all branches operate in one operating segment, the provision of IT services, they qualify for aggregation into one operating segment. Geographical information is based upon the country in which the Company's operations are located.

	Canada	United States	Total
2005			
Revenue	**$ 115,784**	**$ 36,169**	**$ 151,953**
Property and equipment and goodwill	**$ 30,884**	**$ 1,779**	**$ 32,663**
2004			
Revenue	$ 106,595	$ 39,336	$ 145,931
Property and equipment and goodwill	$ 30,837	$ 2,045	$ 32,882

During the year ended September 30, 2005, no single customer accounted for 10% or more of total revenue.

15. Financial instruments

a) Financial risk

Financial risk to the Company's earnings arises from the fluctuations in foreign exchange rates and in interest rates and the degree of volatility of these rates. The Company has not used derivative instruments to reduce its exposure to interest or currency risk. Compensation and other costs in U.S. dollars significantly offset sales in U.S. dollars in the normal course of business and, consequently, reduce the Company's exposure to currency risk.

b) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The Company's risk relating to its trade receivables is limited due to the wide variety of customers and markets into which the Company's services are sold.

c) Fair values

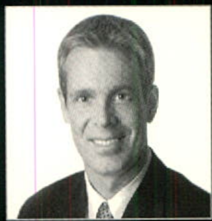
The fair values of the Company's cash and cash equivalents, accounts receivable, work-in-progress, and accounts payable and accrued liabilities are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

16. Supplementary cash flow information

	2005 ($)	2004 ($)
Interest and income taxes		
Interest paid	**10**	78
Interest received	**79**	68
Income taxes paid	**4,273**	3,050
Income taxes refunded	**225**	1,191
Non-cash financing activities		
Shares issued for acquisition	-	2,431

Officers


Iraj Pourian


Warren Beach

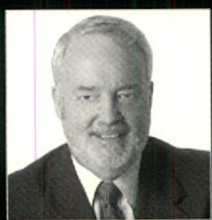

Caroline J. Dunn


John Broere


Bill Thomson

Directors


Peter F. Webb

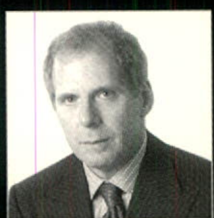

Ian U. Reid


J. Ian Giffen


Robert W. Murdoch


John A. Vivash


Frederick R. Wright


Eric Rosenfeld

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at The Westin Bayshore - The Oak Room. All shareholders are cordially invited to attend.

Wednesday February 15, 2006
11:00 a.m. to 12:30 p.m. (PST)

The Westin Bayshore
1601 Bayshore Drive
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Board of Directors

Iraj Pourian
President and
Chief Executive Officer

Peter F. Webb
Chairman of the Board

Ian U. Reid
Director

J. Ian Giffen
Director

Robert W. Murdoch
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Eric Rosenfeld
Director

John A. Vivash
Director

Frederick R. Wright
Director

Officers

Iraj Pourian
President and
Chief Executive Officer

Warren Beach
Vice President, Chief Financial Officer,
Assistant Corporate Secretary,
and Investor Relations

Caroline J. Dunn
Executive Vice President - Growth Strategies, and
Corporate Secretary

John Broere
Executive Vice President
Eastern Operations

Bill Thomson
Executive Vice President
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Toronto Stock Exchange
Trading Symbol — SSG

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Chartered Accountants
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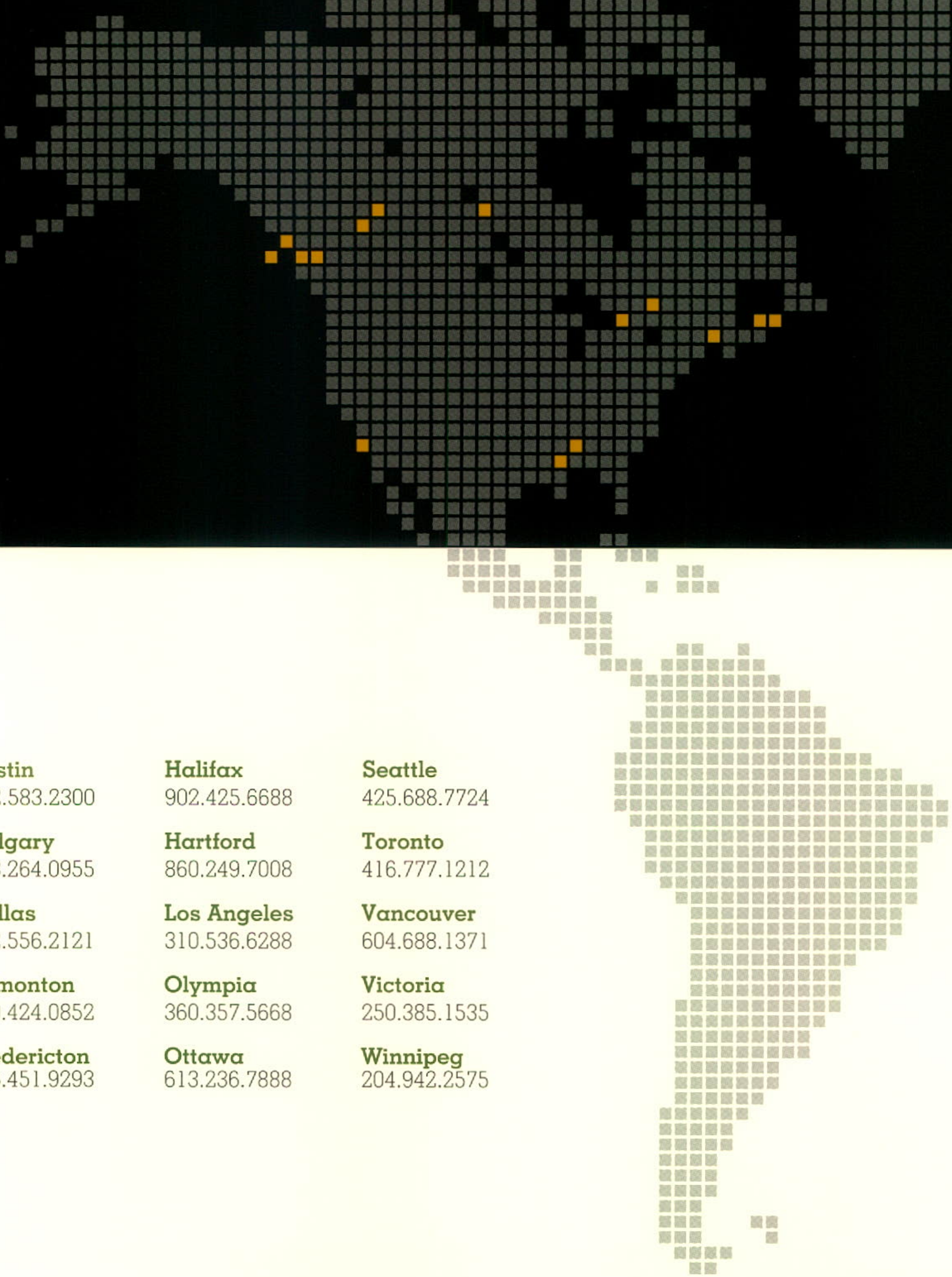

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