

Systemhouse Ltd.
1981 Annual Report



On peut obtenir ce rapport en français sur demande.

Table of Contents

Financial Highlights	Page 3
Chairman's Message	Page 5
President's Message	Page 7
Business Development and Corporate Planning	Page 9
Services	Page 11
Product Sales and Marketing	Page 13
Product Development	Page 15
Advanced Technology	Page 17
Manufacturing and Integration	Page 19
Systemhouse Services	Page 20
Systemhouse Products	Page 21
Consolidated Financial Statements	Page 22
Directors and Officers	Page 32
Systemhouse Office Locations	Inside Back Cover



Financial Highlights

The 1980-81 fiscal year was a most significant year for the Company. Pre-tax earnings increased by 110% from \$1,254,000 to \$2,631,000 on an increase of 58% in Total Revenue. As a result of the significant increase in pre-tax earnings and the stabilization of our investment in internally generated software products, we have incurred a tax expense for the first time in several years. Our tax expense for the current year was \$569,000 contrasted with a recovery of \$199,000 last year.

The most significant event this year was the raising of a net \$21.9 million dollars in equity through a public offering of our common shares in February. As a result, we were able to eliminate our reliance on short-term debt and generate investment income during the last half of the year.

Our increased level of sales and net income is coupled with an increase in our current assets as we have invested a portion of the new equity in the support of our expansion program. Working capital has strengthened to \$13,675,260 compared to \$540,704 one year ago.

For the first time this year, the cost of software products includes a significant amount related to the acquisition of software products developed by people other than ourselves. We acquired the GMS3000 product from Process Kinetics Limited during the year at a cost of \$1.2 million and we invested significant time and energy in the evaluation and acquisition of the rights to a number of complementary products.

In addition to these investments, we have also invested considerable efforts in the development of the infrastructure and delivery system required to support our growth during the next few years. We are carrying \$2,196,079 on our balance sheet as a deferred asset relating to these activities. This amount will be expensed during the twelve months

subsequent to the completion of the start-up period during which the deferral occurred.

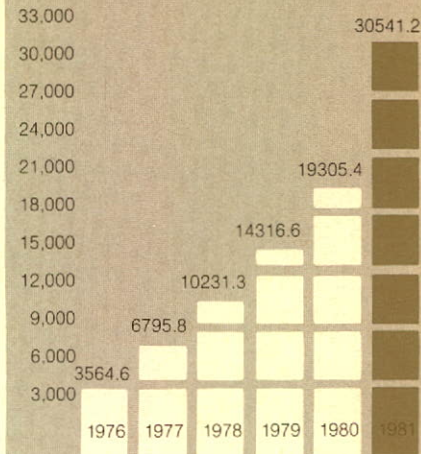
This year has provided the Company with the financial strength and capability to pursue its growth objectives. Working from a strong working capital base will ensure that the Company can support its investment in both additional software products and the team of people required to carry through our future plans. The Systemhouse complement of people has grown from 574 one year ago to 887 at the end of fiscal 80/81.

We are looking forward to another successful year in 81/82, one which will be built on an equity base and financial strength that is significantly better than any other time in the Company's history.

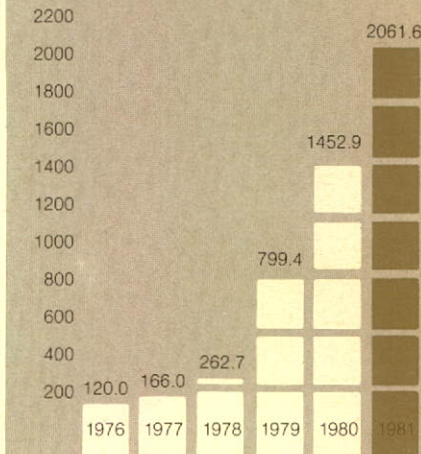
David J. McConomy

David J. McConomy
Vice-President
Finance and Corporate Services

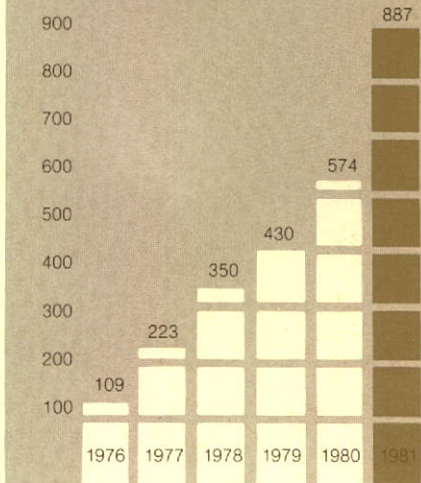
Revenue (Thousands of dollars)



Profits (Thousands of dollars)



Personnel





Chairman's Message

The year we have completed was perhaps a prototype of the development of a corporation in an industry evolving during the closing quarter of this remarkable century. The evolution of micro-electronic technology is combining with an economic and social system that increases in complexity at an accelerating rate. The result is exponential growth in both technical capability and demand for its application to the requirements of government, industry and individuals.

It has often been observed that scientific advances outpace the development of society's ability to control and benefit from the results. It is increasingly evident that the advances in computer and communications technology outpace the capability of the community to apply the technology to commercial and social purposes. It is this gap between advancing technology and user requirements that is generating the software industry. The industry must grow and change in pace with both sides of the gap it bridges. It responds to technological advances, but it must also respond to changing requirements of a mushrooming community of users.

Systemhouse is an industry leader in North America in the development and delivery of application software. The industry is in a period of growth in demand that is accentuated by consolidation into relatively fewer suppliers. Growth of Systemhouse at annual rates above 50% per year will continue to fall short of meeting the demands placed upon the company by the combined forces of the marketplace through this decade. Management and delivery of growth at this pace and in such a dynamic environment challenges the people of Systemhouse at all levels.

In the year ended August 31, 1981 Systemhouse turned in a creditable operating performance. Total revenues increased 58%, pre-tax profits increased 110%, 12 new branches were established in cities across Canada and the United States and permanent employees increased

by 55% to 887. What is remarkable about this industry and this company is that these were not the most significant results of the year.

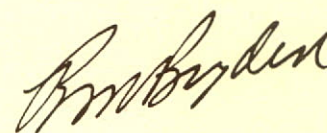
In 1980-81 Systemhouse put in place the financial and organizational structures to support and direct a three-year growth plan that will see revenues multiplied by more than eight times from August '81 to August '84, and pre-tax profit multiply by more than ten times in the same period. Industry circumstances demand this kind of growth of a company that seeks to maintain a role among the leaders. The company must understand and relate to its changing competitive environment on three fronts – customer requirements, hardware technology and software industry capabilities. All three factors are evolving rapidly – generating the opportunities for growth that Systemhouse is experiencing. Change is inevitable and quick. It can be the cornerstone of growth or the executioner of those who would be part of this industry. Each division within Systemhouse is structured to seek and manage change – to see change as opportunity.

Half way through the year, on February 10, 1981, the company received the proceeds of an issue of common shares. Net cash of \$21.9 million was added to the treasury. These funds permitted the implementation of growth plans that could not have been undertaken responsibly without them. Operational results of the actions implemented during the last six months of last year will be seen this year. Revenues are anticipated to move from \$30.5 in 1980-81 to \$99 million in 1981-82. Net income is expected to increase from \$2.1 million (0.19¢ per share) to \$6.4 million (0.55¢ per share) in the same period. This growth reflects operation of the facilities put in place in Canada and the United States during the second half of last year, and the addition of some 350 new employees. A similar growth in absolute revenues and profits is projected for 1982-83, but the base established in 1981-82 will make this growth smaller proportionately.

The Systemhouse community faces enormous challenges and opportunities. The company has the financial and technical resources to

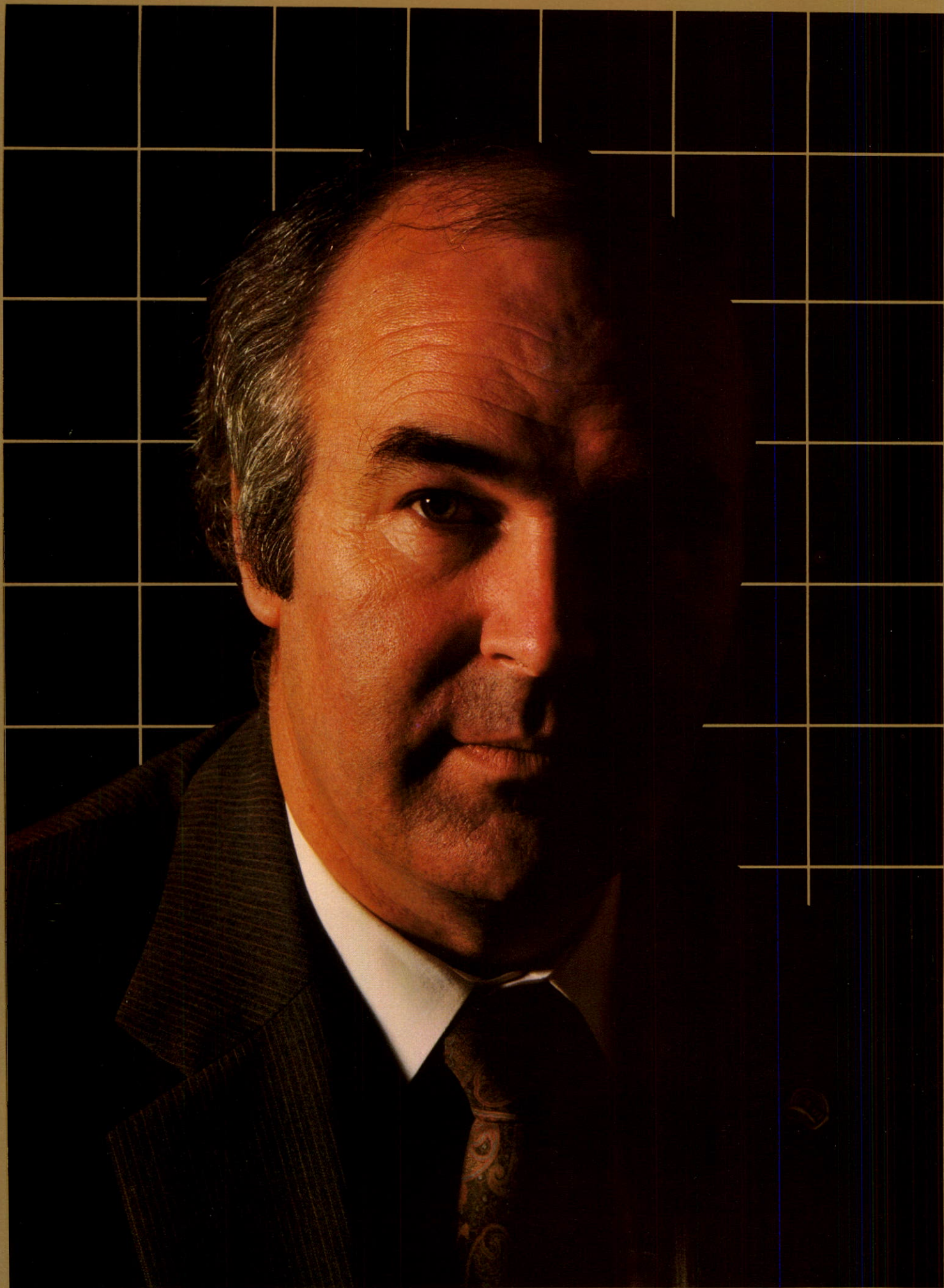
provide the tools for the people of the company to succeed. Competence, dedication and enthusiasm that has characterized the seven years of growth of the company will continue to be key to the success of Systemhouse.

December 15, 1981



R.M. Bryden
Chairman and Chief
Executive Officer





President's Message

In my report to shareholders following the 1979-1980 fiscal year, I projected five-year growth for the company at a rate exceeding 60% annually. I am pleased to now report that in the first year on that five-year planning horizon, Systemhouse achieved revenue of \$30.5 million, representing a growth rate exceeding 58%, and growth in pre-tax earnings from \$1.25 million to \$2.63 million, or more than double the accomplishment of the previous year.

On the evidence of the financial results, 1980-81 was an extremely successful year. But you will also recall that I suggested that, given the opportunity that the company had, a projected growth rate of 60% annually could be extremely conservative. Based exclusively on factors such as market demand, quality of products and services, and the dedication and effort of superbly talented Systemhouse personnel, the opportunity for growth was enormous; however, during the first half of the year the company completed the public placement of 2.1 million treasury shares, providing Systemhouse the wherewithal to plan for and finance growth at levels considerably beyond that permitted from internally – generated resources. In fact, whereas the targets at the beginning of the year included delivering a financial performance for the fiscal year at levels consistent with previous years while organizing for rapid growth in the future, this latter objective took on increased priority as a result of the equity financing. I am pleased to report that the organizational infrastructure together with the attendant personnel and full facilities are now in place to support a tripling of revenue and profit for the 1981-82 fiscal year.

The Services Division, already Canada's largest and without peer anywhere for quality and reputation, will maintain growth at traditional levels. The opening of the United States marketplace through the formal establishment of a branch in Washington, D.C., has put demand for Systemhouse management and professional services at unprecedented levels, with the limit to growth being the rate at which the Services Division can recruit and develop professional resources.

But the extraordinary growth will derive from the sale and delivery of software products; where, in Canada, the sales organization launched in March, 1981, had reached full maturation by the end of the fiscal year with nine branches in principal locations across the country. In addition, as a result of a major expansion program begun in the last quarter, the company now has fully equipped branches for the sale and implementation of Systemhouse products in nine major centres in the United States. Based on the present market demand for systems based on packaged software, combined with a distribution capability that is unmatched in the software industry, the Product Sales and Marketing Division is positioned to be the largest contributor of revenue and profits in fiscal 1981-1982, – the division's first full operating year.

Whereas initial market reaction has been strong for all products, the apparent decision of a provincial hospital association to postpone and reconsider a computer systems installation program on behalf of 20 hospitals is certainly disappointing but it will have no impact on our success in the Health Care marketplace. The Autoplot product, which we had anticipated releasing to the market at the rate of two per month in early 1981, is still in development. We now anticipate completion of development of this product by early 1982.

Systemhouse is uniquely qualified as a systems house. The Company is fully-integrated with the capability to design and build software packages and then to sell and deliver systems based on these packages or other hardware and software combinations directly to the end-user market. In addition, during 1980-81, the Manufacturing and Integration Division was formally established to provide the Company with the ability to engineer, manufacture and integrate devices and components to support the delivery of systems that fully satisfied our clients' operational objectives.

In our dynamic industry the need for forward planning is paramount. The Company responded to this challenge through the establishment of the Business Development and Corporate Planning Division with a mandate to ensure the timely anticipation of appropriate market/product mixes, as well as to put in place a review and information process to provide for the strategic management of the existing initiatives.

The Product Development Division completed the development of several major product initiatives during the year including HFMS and its U.S. counterpart, HAS 3000, which was announced and released to the field by the Hewlett-Packard Corporation in April, 1981. Development of a business system featuring sales order processing and inventory control for distributors was also completed. The Division assumed custodial responsibility for support and enhancement of software products acquired or licensed and implemented the organization necessary to provide for maintenance of all Systemhouse proprietary software.

The Advanced Technology Division continues to be the Company's insurance policy: an investment in the assessment of future technologies so that initiatives undertaken today are based on the best possible judgement of tomorrow's technology. Recent encouragement from government indicates that co-operation with them should enable us to expand our research and development investment – the lifeblood of a competitive economy.

The management style of the company promotes decentralized operational responsibility within an information and communication system that facilitates central monitoring and control. The Finance and Corporate Services Division was strengthened during the year in order to enable it to respond to the demand for central control of a de-centralized organization as it relates to the primary assets of the Company: cash, physical facilities and people.

And it is appropriate to conclude this report with an observation on what is, of course, the principal asset of the Company: the nearly 1100 SHL'ers throughout North America and abroad. Their talent, dedication and commitment is, indeed, the great strength of this company and it is a source of great pride for me to be associated with them.

December 15, 1981



J.R. Davies
President





Business Development and Corporate Planning

Systemhouse has set its objective to be Canada's entry into the fraternity of international software houses. Success is predicated on a continuing ability to assess accurately the markets of tomorrow and initiate today the actions necessary to achieve the maximum penetration of these markets.

To ensure a focussed concentration on this critical element in our growth, immediately following the placement of its equity issue, the Company formed the Business Development and Corporate Planning Division (BD/CP). The mission of this group is to direct the definition of growth objectives of the company and create the strategies to achieve these objectives. BD/CP then assumes the coordinating management role in the implementation of these strategies. Action may relate to the development of new industry opportunities, acquisition or creation of new software products or service specialty areas, or the acquisition or creation of new operating companies required to achieve the overall plan.

The Division works with all Company divisions to ensure that approved strategies and programs are being effectively realized.

Macro level planning is delivered through a Corporate Planning group. The challenge is to provide the company with continuing knowledge and assessment of the changing business environment in which we operate. Micro level (product/service) planning is provided through a Business Development group. The processes through which Systemhouse can attempt to anticipate change, determine the available options and capitalize on opportunities, have been defined during the past year. Here the focus is on vertical market and product selection and analyses. These processes are now being applied to guide the development of Systemhouse within our rapidly evolving industry.

Corporate Planning in Systemhouse must provide the company

with the perspectives of our external business environment. The rate of change in business circumstances parallels the changes in the technologies that both serve and are produced by the industry. Just as our Advanced Technology Division permits the company to benefit from technological change, Corporate Planning must provide the information and assessments to allow us to benefit from the changing business environment.

The Business Development group is responsible for identifying areas of demand and for formulating strategies to pursue these selected markets. The group then assumes the coordinating role in implementing these strategies throughout the company. A basic philosophy underlying the success of our corporation is the necessity to be a total service supplier to our clients. Total service includes products, pre-packaged proprietary software and services and the provision of consulting and custom development capabilities.

Currently, we have established five specific markets for which a mix of products and services have either been developed or are under development by the Product Development Division.

- Manufacturing
- Distribution
- Health Care
- Cartography and Mapping
- Engineering/ Architecture

Within the Business Development group, a business manager is responsible for ensuring the appropriate product mix for each of these markets, and that our market share and the return on investment from each product are at acceptable levels. Each product is under constant review to determine its continued relevance and competitive position. An enhanced program is established for each existing product based on requirements identified from the field. New product initiatives to improve the product mix are defined, and the resources of the company coordinated to develop, package and deliver products to the appropriate distribution organization.

Application Specialty areas within the Services Division are similarly defined. The Industry-specific professional expertise in Social Services, Office Automation and Energy Management markets presents extraordinary growth opportunities. Through the identification of these opportunities, the creation of a market development strategy and the

assembly of teams of industry acknowledged experts, we have clearly positioned Systemhouse to assume a dominant role in these markets in the years ahead. It is the responsibility of the Business Development group to focus corporate action in evolving market areas. As new market opportunities emerge, new application specialty teams will be created.

The year just completed was a landmark for Systemhouse in the development of our health care initiatives. The "HFMS" Hospital Financial Management System development, a three year project, was completed in June, 1981 and the first sales to major health care institutions in Alberta and Ontario were consummated. The methodology used to manage the creation of the project has proven to be extremely successful and is now the standard for all product development initiatives undertaken by the corporation.

A team of health care systems professionals has been assembled to provide an effective sales support and product implementation methodology for HFMS to the Health Care marketplace in Canada. We are in the process of integrating this initiative into the Services distribution organization as a full service product offering.

A second product development initiative is underway that will result in the release to the marketplace of a Client Registry/Admissions, Discharge and Transfer system (CR/ADT) in the spring of 1982. This system, complimentary to and integrated with our HFMS product offering, is the cornerstone of a full fledged patient care management information system. The demand for products of this nature by the health care community, a multi-billion dollar industry in North America, is enormous, and through these product offerings Systemhouse will capture a significant market share.

Management of growth is a key to the success of our Company and the establishment of the Business Development and Corporate Planning Division in 1981 was a vital step in this process.





Services

The Services Division is responsible for field marketing, sales, and delivery of Systemhouse management and professional services, principally management consulting and the design, development and implementation of computer-based information systems.

The Division works with clients to assist in the resolution of management issues related to information systems, to define solutions and, as project managers, to integrate the required combination of hardware, software product, custom software development, implementation and training to ensure the success of the recommended solution.

Organizationally, these services are delivered through two service groupings at the branch level. Consulting Services address all aspects of the application of technology to management's information systems requirements. Systemhouse now has one of the largest and most respected management consulting groups in Canada, as reflected in the scope of assignments undertaken, and the stature and recognition of Systemhouse consultants within their profession.

Development Services assume responsibility for detailed system analysis, design, programming, and technical consulting in such areas as data base and communications. When the development and operation of computer systems is clearly outside a client's normal business activities, Systemhouse assumes full responsibility for the ongoing operation of major applications and computer facilities. Our reputation in delivering systems solutions on time, within budget, and to the end user's original expectations, is now without rival in Canada.

This reputation is expanding rapidly in the United States. The United States is expected to be our major market within three years where Systemhouse technological and project management skills are being increasingly recognized.

At the end of the past fiscal year, the Services Division

employed 565 employees. New Services branches were opened in Calgary, Alberta; London, Ontario; and Washington, D.C. A third market area addressed by the Services Division is the huge international market for advanced information systems in which Canada enjoys competitive advantages in technological, political, and economic terms. Systemhouse has focussed initially on developing Commonwealth nations which have the financial resources as well as a great need for the application of improved information system technology. As a result, we have been active on projects in Hong Kong, Malaysia, and Nigeria, with significant sales growth planned for 1981-82.

Systemhouse Services strategy has been to operate at the forefront of the application of technology. For example, we have played a leading role in the development of Telidon software for the Department of Communications and are currently involved in assisting major clients in establishing Telidon-based videotex systems.

In 1981, Systemhouse introduced vertical market thrusts to support our local sales and delivery organization across North America. In the area of Social Services, we are now developing systems in five Canadian Provinces. The recent award of major contracts in California and Alaska suggests that substantial penetration of this market in the United States will be possible over the next three years. Similarly, areas of vertical market specialization have been established for office automation, system education, and real time systems with an emphasis on energy management. Each of these areas represents an extraordinary demand for Systemhouse services. In response, we are assembling the top experts in North America to develop and execute a coordinated strategy to address the needs of the market. As new areas emerge suitable for large scale market penetration, further vertical specialist areas will be identified.

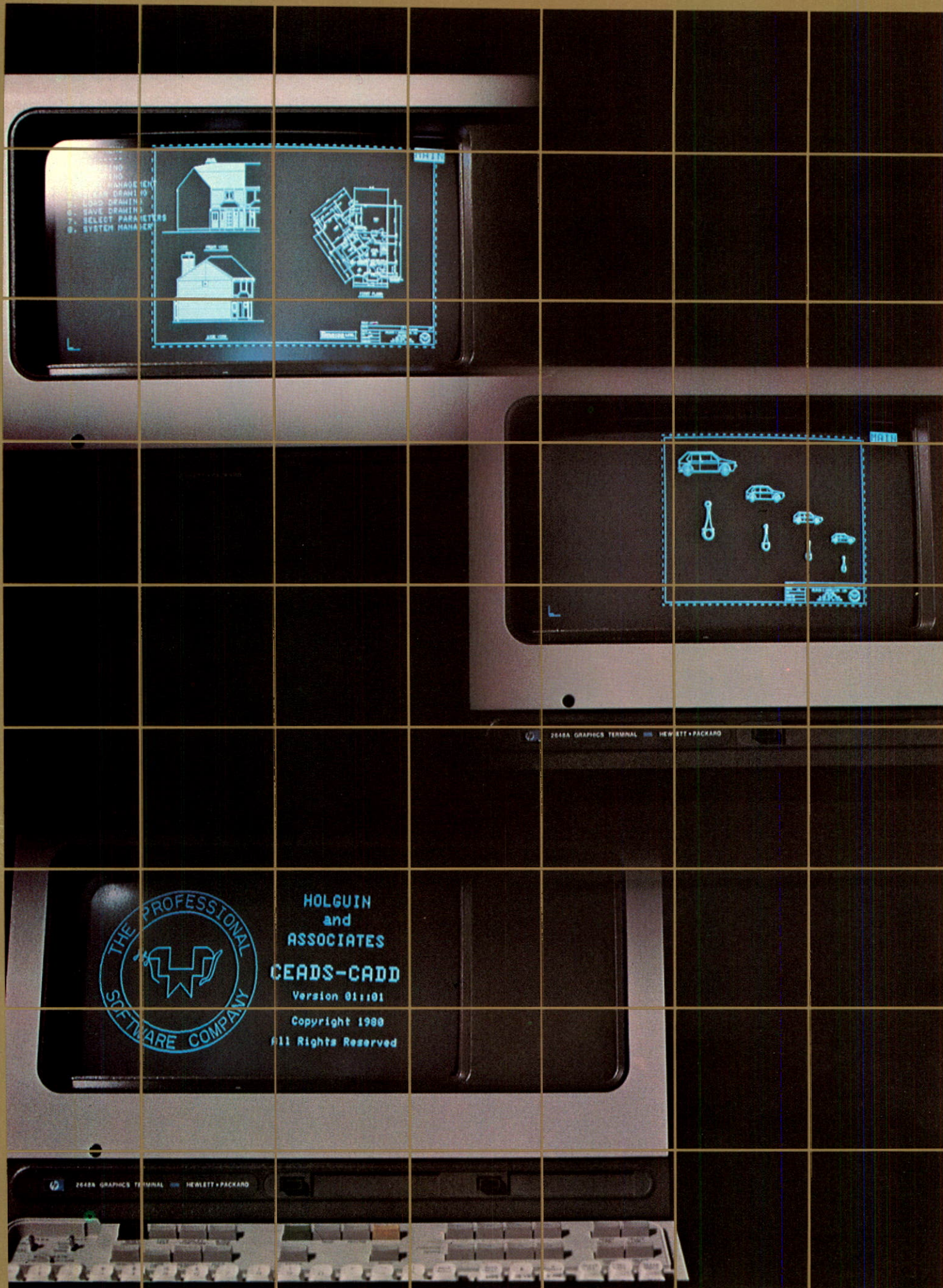
In addition to technological leadership and vertical market penetration, as a third cornerstone of our market development strategy, Systemhouse began a systematic account development program for the major private

and public organizations in Canada. The Canadian business character is unique in that there is a disproportionately high number of national corporations. Systemhouse, because of its own unique national presence among software vendors, is ideally positioned to service these companies.

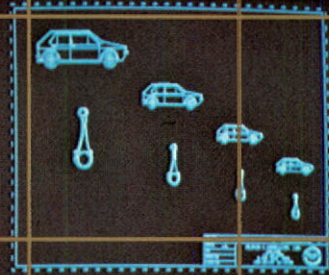
1981-82 promises to be an exceptional year for the Services Division. Our objectives are to increase revenues to approximately \$35,000,000, a level at least twice as large as any Canadian firm and within striking distance of the major U.S. competition while improving profit margins. The maturing of our branch network as well as improvements to all aspects of management control of the sales and delivery process will permit this to be done. Most of this growth will continue in Canada. New branches in Saskatchewan and New Brunswick opened in late 1981 with others planned for late 1982. 1981 and 1982 will thus be a period of consolidating our industry leadership in Canada while testing the U.S. market from Washington, and from a new branch in Chicago. We will then be poised for major expansion into the U.S. in 1982-83.

Factors which have allowed us to achieve successful growth to date will continue to receive careful attention. We must continue to be and to be perceived as the outstanding employer of systems professionals in Canada, extending this reputation to our U.S. offices. This will be achieved through maintaining our orientation to the development of our employees' careers through continuing improvements to our unique career and education management program. We must also preserve our reputation for the exceptional quality of our work to ensure that every client is an enthusiastic reference for future work. This will be accomplished by the enhancement of our project management and control systems, combined with our commitment to excellence throughout the organization.





1. END
2. FILE MANAGER
3. OPEN DRAWING
4. LOAD DRAWING
5. SAVE DRAWING
6. SELECT PARAMETERS
7. SYSTEM MANAGER



HOLGUIN
and
ASSOCIATES
CEADS-CADD
Version 01:101
Copyright 1980
All Rights Reserved

2648A GRAPHICS TERMINAL HEWLETT-PACKARD

Product Sales and Marketing

The Product Sales and Marketing Division is responsible for the sale, delivery and post sales support of Systemhouse's proprietary or off-the-shelf software packages. The Division was created early in the second half of last year. The sales of the Division reached \$8 million for the year; in the current year, sales are targeted at over \$50 million.

With the demand for quality software far exceeding the existing supply, there is an enormous marketplace for developed, proven software packages capable of solving information management problems in an expeditious and cost-effective manner.

While there is a continuing need for custom information systems and unique consulting projects, the requirement for relatively low-cost, standardized packages has created significant opportunities throughout North America. Software products, serving markets with highly standard demands and a large number of potential customers, are sold through the Product Sales and Marketing Division.

In the current year, the vertical markets being addressed by product offerings through this Division are: Manufacturing, Distribution and Architecture/Engineering. The Company has defined an optimal mix of products for each market and secured these by a combination of development in-house and acquisition. Complementary to this program, a distribution network has been put in place to deliver the products to the North American marketplace.

This major thrust into products is an important new direction for the company. In gross revenues and profit contribution, Products will exceed the continuing strong performance of the Company's Services Division by the end of the current fiscal year.

The middle of the past fiscal year saw the first release of SHL products to the Canadian marketplace through the existing branch network. Having

a well-established, coast-to-coast network facilitated a quick and encouraging acceptance of company products.

By year's end, relying on the Company's experience in Canada, the Product Division had completed site selection, management recruiting, training and the modification of products and promotional materials in preparation for expansion into U.S. markets. New branches were created in Boston, New York, St. Louis, Chicago, Cleveland, Los Angeles, Orange County, San Francisco and San Diego.

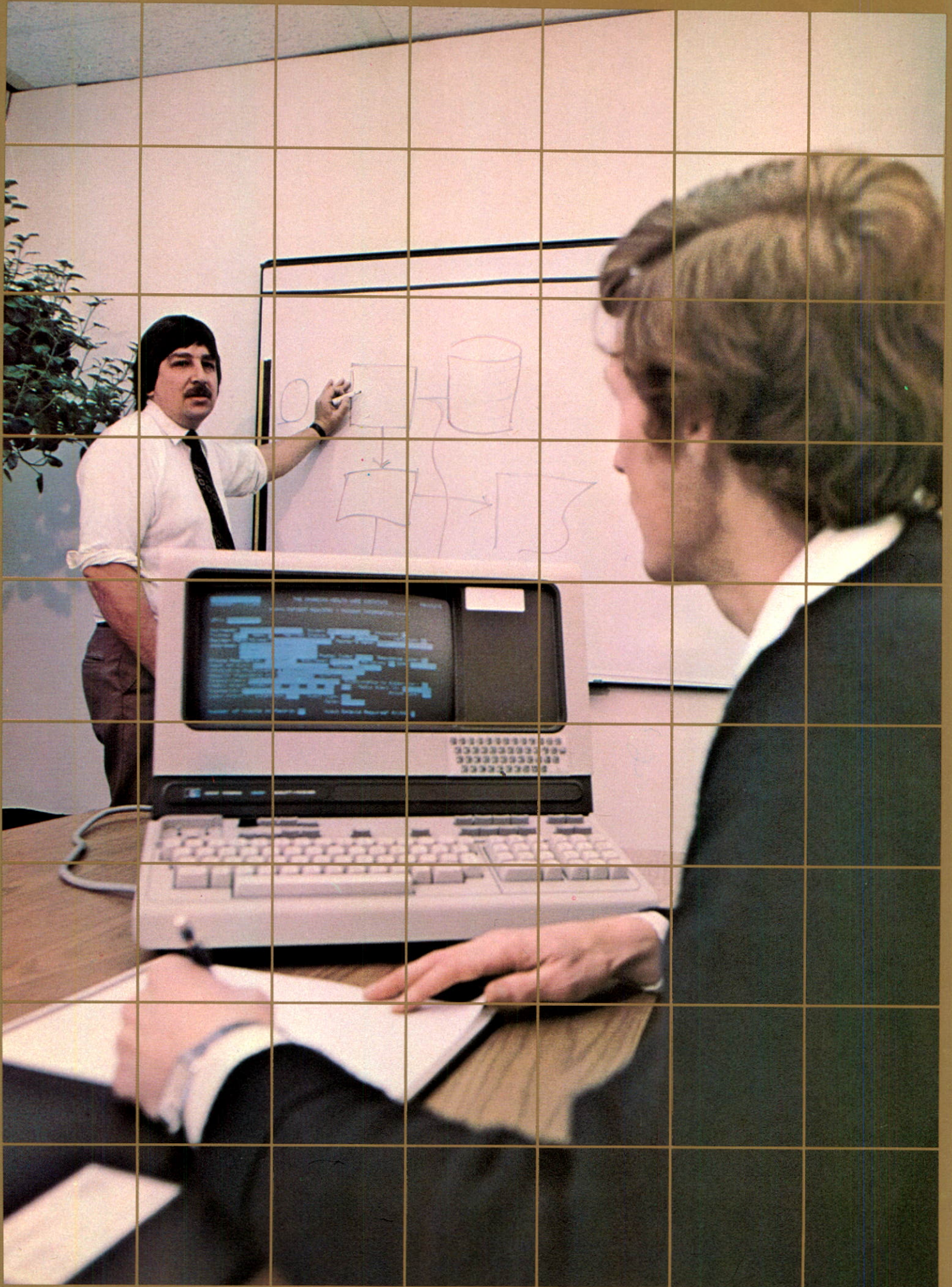
These branches are grouped into three Regions: North-East, Mid-West and Pacific. Each one of these regions represents a market potential in excess of that for Canada. Thus, for the current year, it is anticipated that results from the U.S. will surpass Canadian figures despite the Company's earlier entry into the Canadian marketplace.

In addition to the entrenched branch network and the mature management necessary to direct operations, a key factor in the success of Product Sales Division is the Company's capability in providing well-packaged new product offerings and full professional software support for sale and delivery through the Division.

With the initial growth stages completed, the Product Sales and Marketing Division is in a favourable position to meet future objectives. With a sales and technical support force in the field, the Division can react quickly to introduction of new product offerings based on direct contact with customers.

Plans are now proceeding for the opening of 10 more Product offices in the U.S. by the fall of 1982. The establishment of a significant presence in North America of Systemhouse as a software product vendor will facilitate this branch expansion and the recruitment process in those cities. In concert with continuing service to our established Canadian base, the Division is well placed to deliver Systemhouse turnkey system solutions to a rapidly expanding marketplace.





Product Development

Product Development Division (PDD) carries out the manufacture, enhancement, and support of proprietary software products offered by the company. The Division also assumes custodial responsibility with respect to software acquired from outside sources, and performs quality assurance and upgrade functions in order to meet Company standards. Specialized technical assistance is also provided by PDD to other divisions of the Company on a regular basis.

A total of eleven software products are currently maintained and supported within the Division. An additional three products are now under development. The process of product identification and assessment is designed to maintain a flow of development projects in line with sales objectives and technical advancements. This process will result in new product development projects during the course of the year. The development effort associated with Division products has varied from 70 man-months for the Resource Analysis Mapping System (RAMS) package (now mid-way through development) to over 1,000 man-months applied to develop SHL's Hospital Financial Management System (HFMS) product.

Each software product is designed to optimize performance on a selected hardware vehicle. Current products reside on a variety of hardware manufactured by Digital Equipment, Wang, Hewlett-Packard, Intel and others. These products serve the manufacturing, distribution, health care, architecture, engineering and mapping communities.

Product Development shares a 22,000 square foot facility with SHL's Advanced Technology Division. Together with the Manufacturing and Integration Division, ATD and PDD form the Research and Development Group within Systemhouse.

PDD has evolved a sophisticated methodology for the development of generalized software. The software must have multiple-customer applica-

tion, set high standards of performance, be reliable, easy to install and easy to use by the customer. A commercially successful product must also be efficiently supported and enhanced. The task of manufacturing software products to such standards is considerably more difficult and also more costly than developing customized computer systems to satisfy the requirements of a single customer. The Division is a key part of Systemhouse, providing a proven software product development capacity in excess of 850 man-months annually.

Development projects currently underway include:

Resource Analysis Mapping System (RAMS)

RAMS is scheduled for release in early 1982. The product addresses the analysis and mapping of area-related data. Typically, the data relates to resource exploration and assessment in oil and gas, minerals, forestry and agriculture. The user is able to receive, store, retrieve and analyse a wide variety of information relating to geographical areas. The user may then display selected information and analytical results graphically. The product will permit answers in minutes to questions which would often be impractical to consider manually.

Client Registry/Admission, Discharge, Transfer (CR/ADT)

This software product is designed as a companion to HFMS. It will allow hospitals to reduce labour costs and paperwork associated with the registration, day-to-day bed/room assignment, and, ultimately, the discharge of its patients. Timely and accurate information on patient status is provided by this system to departments and health care practitioners throughout the hospital. A secondary benefit of CR/ADT is the improved use of facilities and resources.

CSS/3000

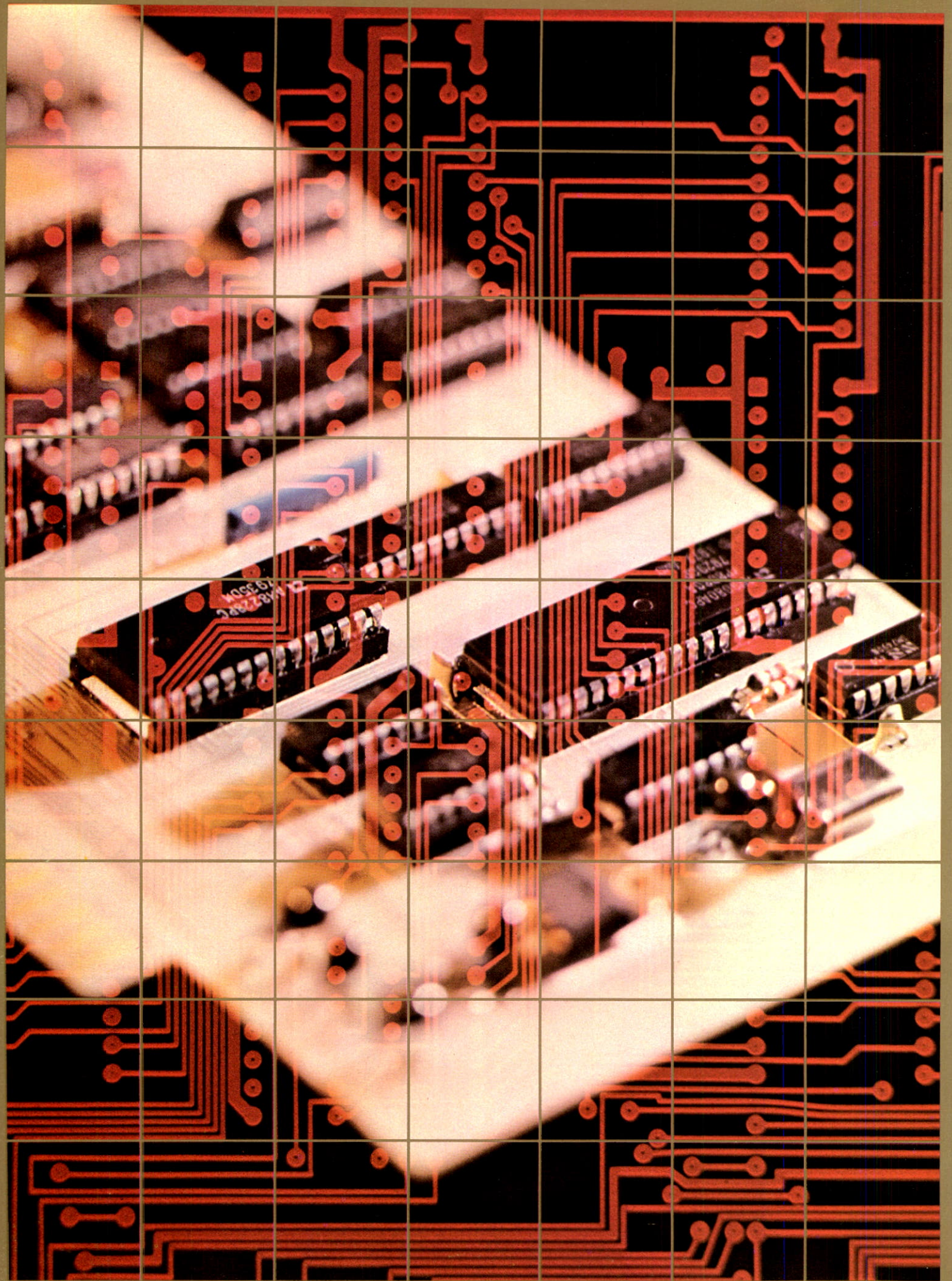
Our Control/Support software package is a software product that will assist systems designers and programmers developing software on HP3000 computing systems. CSS permits the development of computer applications in a fraction of the time they would otherwise take, while

at the same time improving the ease of maintenance and flexibility.

As new products are being developed, our current products are being enhanced and improved in the PDD development facility. Work is currently underway to add capabilities in our GMS product, our CAD/CAM system and our mid-range distribution system. This year PDD will deliver 200 man-months of development in the enhancement of these products.

Generally, products developed or maintained by PDD are sold and delivered in other divisions. However, in Automap and Autochart products, a special relationship exists between the technical team of the customer and the development team within the supplier. Accordingly, PDD has responsibility within Systemhouse for the marketing, development, installation and support of Systemhouse computer-assisted mapping and charting system packages. Nine such systems, several with a value in excess of \$1-million, have been installed in military and civilian mapping organizations in North America and overseas. At least three more installations are expected within the next twelve months. Systemhouse continues to be an industry-leader in this field.





Advanced Technology

The Advanced Technology Division (ATD) provides Systemhouse with the best available technological basis on which to plan and develop software systems. The rapidly changing and evolving nature of the industry demands that Systemhouse have an in-house capability to remain current and evaluate technological innovations. The formalization of a Technology Research Program under the aegis of the Advanced Technology Division places the Company in position to initiate new product actions in line with advancements in high technology. This pro-active role permits Systemhouse to treat change as opportunity rather than a threat to established positions.

The Systemhouse Research Program is comprised of five specific areas of investigation:

- office automation
- communications
- micro computer systems
- distributed data systems
- development productivity

Research activities into Office Automation have been ongoing for more than a year; however a significantly enhanced program is now underway. Specific projects include: the analysis of office requirements, the development of office models, design and implementation of a prototype electronic messaging/personal workstation network and a series of in depth technological evaluations of digital PBX's, laser page printers, business graphics (including Telidon) and low cost approaches to personal workstations.

The Advanced Technology Division has, for some time, been active in Computer Communications. The Division is continuing to work in the area of Open System Interconnection, with particular emphasis on the areas of Local Area Communications Networks.

The objective of our micro-computer research is to evaluate the current and future potential for business solutions using microcomputers. The scope of the research includes 8, 16, and 32 bit processor

architectures. The full range of peripherals will be integrated into complete systems using advanced systems software. Available component technologies are being evaluated and compared against the cost and practicality of undertaking custom engineering. Research of this type permits software products and professional service offerings to evolve in concert with the extended capabilities of microprocessing technology.

Although distributed data processing concepts have been talked about and, in a few cases, implemented over the past five years, there still appears to be a scarcity of remote workstations suitable for a small office operation. The SHL initiative in this area will evaluate the feasibility of developing a suitable workstation based on microcomputer system technology.

With hardware costs decreasing so rapidly and the scarcity of qualified systems development personnel increasing, the opportunity to improve the productivity of the software development process is gaining greater interest. A number of projects are being carried out in this area to evaluate the productivity aspects of various high level languages, the potential for "programmerless software" using software generators, and the development of software tools that would improve the System Development Life Cycle Process.

The ultimate goal of the Division is to ensure that Systemhouse can service the marketplace with solutions that are both leading edge and proven.

Part of the Systemhouse advertising campaign for this year states that someone in the Advanced Technology Division must "work five years in the future...on a daily basis." This is not a hyperbolic statement but rather an accurate assessment of the challenges faced by the Advanced Technology Division. The success of this division is a key part of the company's program to ensure that the change which is inevitable in our industry continues to be our cornerstone of opportunity.





Manufacturing and Integration

The delivery of turnkey systems utilizing Systemhouse software often requires the production of specialized hardware. Manufacturing and Integration Division (M and I) provides custom hardware engineering and hardware manufacturing in support of the various Systemhouse divisions and, through these divisions, to the Company's customers.

Technical support and engineering relates primarily to photogrammetric applications and computer interfacing. In addition, M&I provides subcontract manufacturing to Ottawa-area micro-electronics manufacturers. Growth in this industry group in the Ottawa area is generating strong demands for contract engineering, design and manufacturing. Through this division, Systemhouse not only maintains a unique capability in the software industry, but also profits from sale of services to national and international computer hardware and peripheral manufacturers, particularly in the area of final assembly and testing.

The tremendous technological demands placed on a variety of industries to upgrade their products to include micro-processor technology and the general growth of "high technology" present a unique opportunity for a custom engineering and manufacturing organization. The requirements within Systemhouse itself have generated a base of knowledge and experience which is of considerable value to other growing companies. The personnel now grouped under M&I possess a wide knowledge of mainframe and peripheral construction and the practical experience to modify and refine existing hardware. The group will continue to support the various Systemhouse divisions with their custom hardware needs. But the market indicates that the Division has the potential to be a significant profit contributor in its own right.



Systemhouse Services

Systemhouse has participated in hundreds of projects, ranging in cost from several thousand to several million dollars.

Systemhouse is recognized as a leader in the evaluation, analysis, planning and implementation of information systems, with "hands-on" experience in:

- banking/finance
- government
- manufacturing
- transportation
- retail/wholesale
- distribution
- education
- service organizations
- health and medical
- communications
- energy
- mining
- property management

Systemhouse offers a wide range of service areas to these industries. The following list of specialties is not all-inclusive as Systemhouse expertise in professional services is constantly growing.

Consulting Services

- Corporate Requirements Definition
- Systems Planning
- Feasibility Studies
- Systems Development Methodology
- Applications Software Package Evaluation
- Financial Management
- Office Automation/Productivity Improvement
- Information Resource Management
- Systems Audit
- Organizational Studies
- Operations Research
- Statistics
- Scientific Applications
- Security Studies
- Capacity/Performance Evaluation and Planning
- Research/Development Studies

Development Services

- Project Management
- Turnkey Systems
- Systems Development Methodology

- Database Systems
- Communication Systems
- Distributed Systems
- Graphics Systems
- Micro-Computer Systems
- Conversion
- Scientific Applications
- Programming Productivity

Technical Services

- Systems Engineering
- Building Energy Management
- Database Technology
- Distributed Systems
- TELIDON Application
- Graphics Technology
- Micro-Computer Technology
- Software Engineering
- Technical Writing
- Hardware Configuration
- Realtime Systems
- Data Acquisition Systems
- Process Control Systems
- Industrial Automation

Facilities Management

- Operations Management
- Application Management
- System Support

Educations Services

- Technical Education
- Computer-Aided Education
- Management Education and Training
- Public Seminars
- Custom Course Development
- Computer-based Courseware Development
- Systems Professional Education and Training
- Education Requirement Studies
- Career Path Planning
- Skills Inventories
- Training Program Planning – Budgeting and Scheduling



Systemhouse Products

Systemhouse is unique in the software industry in delivering turnkey hardware/software systems from fully structured offices across North America. The Systemhouse customer receives the installation, systems implementation and software service and support from the local Systemhouse office, drawing on the depth of more than 700 computer software professionals. Our software products form the base of the systems we sell and service.

Distribution

Large Companies

The Systemhouse distribution system for large retail and wholesale companies (annual sales \$10 million and up) is a high capacity DEC-based system which performs the following business functions: order entry and processing, sales analysis, budgeting and general accounting.

Medium Companies

Running on a Wang mini-computer, Systemhouse's mid range distribution system is aimed at businesses with gross sales revenues of approximately \$4-10 million dollars. This system carries out the functions similar to the DEC-based system on a smaller scale.

Small Companies

For small companies with revenues of approximately \$1-5 million, Systemhouse offers a Wang-based system with functions similar to the 2 larger distribution products but at a reduced capacity.

Health Care

HFMS (Hospital Financial Management System)

HFMS is a fully interactive system designed to handle a hospital's business information requirements. HFMS accommodates the financial and administrative processes through the following applications: Management Reporting, Materials Management, Personnel/Payroll Administration, General Ledger and Budgeting and Accounts Receivable/Payable. The system is appropriate for mid to large-sized hospitals. However, several small hospitals can share a single system. Hospitals may

purchase the entire system or individual applications.

CR/ADT* (Client Registry/ Admission, Discharge, Transfer)

CR/ADT is a companion to HFMS and is designed to provide on-line, real-time control and access. The system provides the control of all functions relating to the pre-admission, discharge and transfer activities of an in-patient or a day surgery patient. Information on patient status is provided to all relevant departments and health care personnel in the hospital. CR/ADT will reduce labour costs, and paperwork while improving use of resources and facilities.

Manufacturing

GMS - 3000

(General Manufacturing System)

GMS - 3000 is a system designed for all types of manufacturing. It does planning for materials requirements, job scheduling and materials processing - in essence the ordering and scheduling of materials to ensure timely arrival on the production line. Sales order entries, sales analyses and inventory control functions are part of GMS. Additionally, business office functions, such as accounting and payroll, are fully integrated and interactive with the package. GMS also performs capacity planning, and "what if" costing and produces bills of materials.

Cartography/Photogrammetry

Automap and Autochart

Automap and Autochart automate the production of maps, the former for land mapping, the latter for charting coastal waters. They produce high-resolution relief maps, call up map segments, modify, store and update them. Used by military or civilian organizations around the world, the systems dramatically reduce time required to produce maps while permitting greater accuracy.

RAMS* (Resource Analysis Management System)

RAMS assists in the mapping and analysis of information on an area's natural resources. Designed for use by forestry, agricultural, mineral, land used and oil or gas companies or agencies, RAMS allows the management of timely and accurate data related to these important industries.

Drafting

CEADS-CADD (Computer-assisted design and drafting)

CEADS is a mid-range design and drafting system for use by architectural and engineering firms. It can accommodate up to eight separate workstations and offers users substantial reductions in time taken to manually produce drawings while producing more accurate, more complex drawings and blueprints. CEADS does not require a computer background on the part of user firms.

Information Management

MINISIS

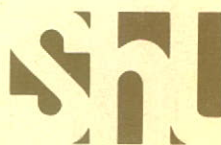
MINISIS is a generalized, information management system running on an HP 3000 Mini-computer suitable for business and government. MINISIS provides on-line data entry, correction and retrieval functions. MINISIS is a user friendly system with a powerful command language and report generator, and full abstracting and indexing capabilities. Purchasers of MINISIS become members of the Systemhouse MINISIS user group entitled to consultation and advice on the most effective methods of data base creation and management.

Control/Support

CSS/3000

CSS/3000 Control/Support software package will assist systems designers and programmers developing software on HP 3000 computing systems. CSS permits the development of computer applications in a fraction of the time they would otherwise take, while at the same time improving the ease of maintenance and flexibility.

*To be released in 1982



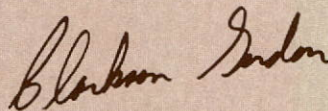
Auditors' Report

To the Shareholders of
Systemhouse Ltd.:

We have examined the consolidated balance sheet of Systemhouse Ltd. as at August 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for certain branch start-up and other development costs described in Note 2, on a basis consistent with that of the preceding year.

Ottawa, Canada
November 23, 1981



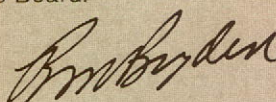
Chartered Accountants

Systemhouse Ltd.
(Incorporated under the Canada Business Corporations Act)
Consolidated Balance Sheet
August 31, 1981

Assets	1981	1980
Current:		
Short-term deposits	\$ 8,715,904	-
Accounts receivable	6,459,234	\$ 4,841,297
Work in process	7,451,479	2,776,623
Hardware inventory	569,000	-
Prepaid expenses and supplies inventory	1,150,773	469,999
	<u>24,346,390</u>	<u>8,087,919</u>
Fixed (note 4)	<u>2,557,446</u>	<u>1,165,877</u>
Other:		
Software product costs (note 5)	13,036,699	5,157,271
Other development costs (note 6)	2,196,079	-
Deferred income taxes	-	172,000
	<u>15,232,778</u>	<u>5,329,271</u>
	<u>\$ 42,136,614</u>	<u>\$ 14,583,067</u>
Liabilities and Shareholders' Equity		
Current:		
Bank and other loans (note 7)	\$ 2,805,688	\$ 3,375,036
Accounts payable and accrued liabilities	7,054,326	3,549,547
Current portion of non-current liabilities (note 8)	281,287	161,261
Deferred revenue	529,829	461,371
	<u>10,671,130</u>	<u>7,547,215</u>
Non-current (note 8)	<u>1,487,670</u>	<u>1,100,865</u>
Deferred income taxes	<u>214,267</u>	<u>-</u>
Contingency (note 3)		
Shareholders' equity:		
Share capital (note 9)	29,892,296	3,982,853
Retained earnings	2,768,872	1,952,134
	<u>32,661,168</u>	<u>5,934,987</u>
Less 1,262,250 Class A Common shares held by subsidiary company, at cost (note 15)	<u>(2,897,621)</u>	<u>-</u>
	29,763,547	5,934,987
	<u>\$ 42,136,614</u>	<u>\$ 14,583,067</u>

On behalf of the Board:

Director:



Director:



(See accompanying notes to Consolidated Financial Statements)

Systemhouse Ltd.
Consolidated Statement of Income and Retained Earnings
Year Ended August 31, 1981

	1981	1980
Gross revenue	\$ 29,275,896	\$ 19,305,396
Investment income	<u>1,265,339</u>	<u>—</u>
	30,541,235	19,305,396
Less cost of hardware sold	<u>4,496,697</u>	<u>2,519,434</u>
Operating revenue	<u>26,044,538</u>	<u>16,785,962</u>
Expenses:		
Operating and administrative	22,762,443	15,108,407
Depreciation and amortization	487,470	199,894
Interest and bank charges	<u>163,726</u>	<u>223,712</u>
	<u>23,413,639</u>	<u>15,532,013</u>
Income before income taxes	2,630,899	1,253,949
Deferred income taxes (note 10)	<u>569,267</u>	<u>(199,000)</u>
Net income for the year	2,061,632	1,452,949
Retained earnings, beginning of year	<u>1,952,134</u>	<u>1,055,691</u>
	<u>4,013,766</u>	<u>2,508,640</u>
Dividends — preferred shares	14,276	21,400
— common shares	<u>—</u>	<u>273,238</u>
	14,276	294,638
Cost of share issue net of income taxes of \$183,000 (1980 — \$172,000)	1,184,882	203,318
Premium on shares purchased for cancellation	—	58,550
Excess of cost of common shares purchased over proceeds (note 9)	<u>45,736</u>	<u>—</u>
	<u>1,244,894</u>	<u>556,506</u>
Retained earnings, end of year	<u>\$ 2,768,872</u>	<u>\$ 1,952,134</u>
Net income per common share (note 12)	<u>19.2¢</u>	<u>16.4¢</u>

(See accompanying notes to Consolidated Financial Statements)

Systemhouse Ltd.
Consolidated Statement of Changes in Financial Position
Year Ended August 31, 1981

	1981	1980
Working capital provided by:		
Operations		
Net income for the year	\$ 2,061,632	\$ 1,452,949
Add items not involving working capital:		
Deferred income taxes	569,267	(50,000)
Depreciation and amortization	487,470	199,894
Other	-	82,377
Working capital from operations	3,118,369	1,685,220
Issue of shares (net)	21,857,940	2,524,932
	<u>24,976,309</u>	<u>4,210,152</u>
Working capital applied to:		
Investment in software products	8,020,181	3,644,763
Other development costs (note 6)	2,196,079	-
Purchase of fixed assets (net)	1,026,838	43,867
Current maturities of capital lease and office lease obligations	324,643	161,261
Excess of cost of common shares purchased over proceeds (note 9)	45,736	-
Dividends declared	14,276	294,638
Shares purchased and cancelled	214,000	65,678
	<u>11,841,753</u>	<u>4,210,207</u>
Increase (decrease) in working capital during the year	13,134,556	(55)
Working capital, beginning of year	540,704	540,759
Working capital, end of year	<u>\$ 13,675,260</u>	<u>\$ 540,704</u>
Current Assets	\$ 24,346,390	\$ 8,087,919
Current Liabilities	<u>10,671,130</u>	<u>7,547,215</u>
Working Capital	<u>\$ 13,675,260</u>	<u>\$ 540,704</u>

(See accompanying notes to Consolidated Financial Statements)

Systemhouse Ltd.
Notes to the Consolidated Financial Statements
August 31, 1981

1. Summary of significant accounting policies

The consolidated financial statements (including the accounts of the Company's wholly-owned subsidiaries) have been prepared by management in accordance with generally accepted accounting principles which have been consistently applied, except as explained in note 2. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a year necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Revenue recognition

(i) Custom software

Revenue is recognized on a percentage of completion basis whereby revenues and work in process are recorded at the estimated realizable value of work completed to date. Deferred revenue is recorded to the extent that billings to clients are in excess of revenue recognized to date.

(ii) Proprietary products

Revenue from the sale of proprietary products is recognized at the time the Company contracts to transfer its rights to the proprietary product to the customer. Consistent with the Company's belief that its primary business is selling software, the cost of hardware included in proprietary sales is provided for and shown as a deduction from gross revenue.

b) Fixed assets, capital leases and leasehold improvements

Fixed assets and leasehold improvements are recorded at cost. Fixed assets under capital lease are initially recorded at the present value of minimum future lease payments. These assets are depreciated generally on a straight-line basis at the following rates:

Furniture and equipment	10% to 30%
Computer development equipment	30%
Leasehold improvements	Term of lease

c) Software product costs

Costs, including an allocation of interest and overhead, which relate to the development and acquisition of computer-based systems, where the systems are expected to be sold in substantially the same form in the future, are capitalized. It is the Company's policy to charge these costs to income, commencing in the year of development completion, based on projected unit sales over a period of not longer than 3 years or when it is determined that the costs will not be recovered from related future revenues.

d) Other development costs

During 1981 the Company adopted the policy of capitalizing certain start-up costs related to the establishment of proprietary software products operations and the major expansion of its professional services branch network. Such capitalized costs, which are being charged to earnings over one year, include:

- (i) Direct salary, out of pocket and incremental administrative costs incurred in the initial development of Canadian and U.S. sales networks required for the new proprietary software products. The balance at August 31, 1981 will be charged to income over the next four quarters on the basis of projected revenues from these products.
- (ii) Branch pre-opening costs and net operating losses, prior to achieving profitability, for a period not exceeding twelve months after opening. Net branch operating losses are defined as total sales revenues less all direct branch salary and overhead costs but excluding corporate overhead allocations and income taxes. These amounts are being charged to income on the basis of projected branch revenues over the subsequent four quarters.
- (iii) The direct out-of-pocket costs of hiring and relocating employees for newly created positions associated with the Company's branch expansion program. These costs are charged to income on a straight line basis over the four quarters subsequent to incurring the costs.

e) Income taxes

The Company follows the tax allocation method of accounting for income taxes. Under this method, items which are included in the consolidated statement of income in one year but are

reported or deducted in the Company's tax return in another year, give rise to provisions for deferred income taxes. Deferred income taxes result principally from timing differences when claiming product development costs, depreciation of fixed assets and unbilled work in process.

In computing the provision for income taxes, the benefit of certain significant deductions allowed under the Income Tax Act, primarily for the additional scientific research allowance for development work, is recognized in the statement of income in the year the related expenditures are made. The net benefit of the Federal investment tax credit is recorded as a reduction in the provision for income taxes in the statement of income in the year of realization. See note 10.

f) Deferred lease credits

Under the terms of certain leases, the lessor allows the Company deferred rental payments and allowances for leasehold improvements. These deferred rent credits and leasehold allowances are amortized to operations over the lease term.

g) Foreign exchange

Current asset and liability accounts in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Other assets and liabilities are translated into Canadian dollars at rates of exchange prevailing at the transaction dates. Revenues and expenses are translated at the average rates prevailing during the year. Exchange gains and losses are included in income.

2. Change in accounting policy

During 1981, the Company invested \$2,196,079 in branch start-up and certain other activities associated with major expansion of the product and services delivery networks. These costs were capitalized as explained in Note 1(d) and were funded from the proceeds of the public issue of common shares, pursuant to the prospectus dated January 20, 1981. Had these expenditures been charged against income during the year, the result would have reduced net income by \$1,400,000 (13.1¢). While the necessary financial data to effect this accounting change on a retroactive basis is not readily determinable, management is satisfied that, if applied to the previous year's financial statements, it would have no material effect on the Company's financial position at August 31, 1980 or the results of operations for the year then ended.

3. Contingency

During the year, the Company was selected by a provincial hospital association to provide a number of hospitals in that province with a Hospital Financial Management System (HFMS), and accounted for the work done on the project on a percentage of completion basis. At August 31, 1981, the company has recognized in revenue an amount of \$628,000 which is included in the balance sheet in work in process. In late November, 1981, the Company was advised by the association that negotiations to formalize a contract were being terminated.

The Company is negotiating with the association and the relevant ministry with a view to completing the project. The company has obtained legal advice on this matter and believes the amount in question is recoverable from the parties and that no material loss will result. The resolution of this matter will be accounted for in the statement of income in the period in which it occurs.

4. Fixed assets

The following is an analysis of fixed assets:

	1981			1980
	Cost	Accumulated depreciation or amortization	Net	Net
Furniture, fixtures and computer equipment	\$ 624,070	\$ 110,993	\$ 513,077	\$ 90,555
Leasehold improvements	851,997	182,016	669,981	258,250
	<u>\$1,476,067</u>	<u>\$ 293,009</u>	1,183,058	348,805
Assets under capital lease (net)			1,374,388	817,072
			<u>\$2,557,446</u>	<u>\$1,165,877</u>

The following is an analysis of assets under capital lease:

	1981	1980
Present value of future lease payments:		
Computer equipment	\$ 467,426	\$ 163,273
Office furniture	1,159,210	762,659
	1,626,636	925,932
Less accumulated amortization	(252,248)	(108,860)
	<u>\$1,374,388</u>	<u>\$ 817,072</u>

The amount of amortization of the assets under capital lease charged to expense is as follows: year ended August 31, 1981 – \$143,388; August 31, 1980 – \$84,602. The amount of depreciation and amortization of the above fixed assets charged to expense is as follows: year ended August 31, 1981 – \$203,330; August 31, 1980 – \$51,513.

The obligations under capital leases expiring at various dates up to 1987 were determined using interest rates varying from 14% to 21.5%. Minimum lease payments under these leases amount to \$1,951,207 including \$599,843 of interest, and are as follows: 1982 – \$429,560; 1983 – \$429,560; 1984 – \$404,068; 1985 – \$338,594; 1986 – \$273,342; 1987 and thereafter – \$76,083. The interest charged to income in 1981, relating to these obligations, amounts to \$163,726 and is included in interest expense.

5. Software product costs

The following is an analysis of software product costs:

	1981	1980
Balance, beginning of year	\$ 5,157,271	\$ 1,579,174
Additions during the year including interest of \$565,000 (1980-\$457,000)	8,020,181	3,644,763
	13,177,452	5,223,937
Less amortization	(140,753)	(66,666)
Balance, end of year	<u>\$ 13,036,699</u>	<u>\$ 5,157,271</u>
Represented by:		
Internally developed systems		
– Business systems	\$ 2,495,665	\$ 750,536
– Graphics systems	3,883,521	2,478,497
– Hospital systems	3,811,587	1,861,738
Other	2,845,926	66,500
	<u>\$ 13,036,699</u>	<u>\$ 5,157,271</u>

6. Other development costs

Other development costs at August 31, 1981, include:

Sales network development costs	\$ 543,944
Branch pre-opening and start-up losses	1,428,106
Hiring and re-location costs	595,987
	2,568,037
Less amounts charged to income	(371,958)
	<u>\$ 2,196,079</u>

7. Bank and other loans

The Company has pledged accounts receivable and short-term deposits in the amount of \$2,000,000 as collateral for bank and other loans. In addition, the Company has given a general assignment of book debts and furnished the bank with a security interest on all of its property and assets.

8. Non-current liabilities

The following is an analysis of non-current liabilities:

	1981	1980
Leasehold improvements financing bearing interest at bank prime plus 2%	\$ 126,352	\$ 126,036
Other office lease obligations	291,241	331,879
Capital lease obligations bearing interest at rates varying from 14% to 21.5% (note 11)	1,351,364	804,211
	1,768,957	1,262,126
Less current portion	(281,287)	(161,261)
	<u>\$ 1,487,670</u>	<u>\$ 1,100,865</u>

9. Capital stock

Preferred Shares

During the year the 214 10% cumulative preferred shares, which had a paid in value of \$214,000, were redeemed for cash equal to their par value of \$1,000 each.

Common Shares

- The Class A Common and Class B Common Shares have similar rights except that the Class B Common Shares are non-voting and have a preferred right to the first one cent per share of common share dividends declared in the year and then share equally in dividends after the next one cent per share of common share dividends has been paid on the Class A Common Shares.
- By articles of amendment issued to the Company effective December 24, 1980 the Class A Common Shares and Class B Common Shares were subdivided on the basis of two shares for each share held.

A summary of the changes during the year in issued and fully paid Class A Common Shares and Class B Common Shares is as follows:

	CLASS A		CLASS B	
	Number of Shares	Amount	Number of Shares	Amount
Balance, August 31, 1980	4,750,758	\$ 3,767,804	2,960	\$ 1,049
Issued for cash on exercise of stock options	78,750	118,010	-	-
Balance, December 24, 1980	4,829,508	3,885,814	2,960	1,049
Subdivision - 2 for 1	4,829,508	-	2,960	-
Balance after subdivision	9,659,016	3,885,814	5,920	1,049
Issued for cash on exercise of stock options	2,500	7,812	-	-
Issued for cash pursuant to public offering	1,400,000	15,400,000	-	-
Issued to Kinburn Capital Corporation	700,000	7,700,000	-	-
Issued to wholly-owned subsidiary (note 15)	1,262,250	2,897,621	-	-
Balance, August 31, 1981	<u>13,023,766</u>	<u>\$29,891,247</u>	<u>5,920</u>	<u>\$ 1,049</u>

Pursuant to the Employee Stock Purchase Plan, designated employees are eligible to acquire Class A Common Shares within certain limits from the Trustee. The Company may at its option advance funds to the Trustee to acquire shares in the open market or to issue Class A Common Shares to meet the requirements. The shares are held in Trust for the employee until paid for in full.

Under a stock option plan, certain employees have been granted the right to acquire Class A Common Shares of the Company at prices which were equal to the closing market price on the date the options were granted. Under the terms of this plan, an employee becomes eligible to acquire a portion

of the optioned shares at the end of each three month period following the granting of the option. At August 31, 1981, 133,000 share options were outstanding at prices ranging from \$3.13 to \$10.75 per share and expiring on various dates up to August 24, 1984 of which 28,125 were eligible to be exercised.

10. Income tax information

The difference between the provision for income taxes in the statement of income and the amount that would be computed by multiplying the amount of income before taxes by the applicable income tax rate for the Company is due to certain significant deductions allowed under the Income Tax Act, primarily for the additional scientific research allowance which amounts to \$770,000 for the year ended August 31, 1981 (1980 - \$1,550,000).

The Company has available certain investment tax credits of approximately \$1,000,000 expiring up to 1986, which may be applied to reduce taxes payable in future years. The benefit of these credits has not been reflected in the accounts.

The provision for income tax reported differs from the amount computed by applying the Canadian tax rates to income before taxes. The reasons for these differences and their tax effects are as follows:

	1981	1980
Expected tax rate	51%	51%
Expected tax provision	\$ 1,342,000	\$ 639,000
Scientific research allowance	(391,000)	(791,000)
Investment tax credit	(332,000)	-
Other	(49,733)	(47,000)
	<u>\$ 569,267</u>	<u>\$ (199,000)</u>

11. Operating lease commitments

Under operating lease agreements for office premises and computer development equipment, the Company is committed to make future minimum payments, not including payments for those capital leases discussed in note 4, during the next five years as follows:

	Office Premises	Computer Development Equipment	Total
1982	\$ 814,800	\$ 353,632	\$ 1,168,432
1983	810,312	353,632	1,163,944
1984	799,569	348,297	1,147,866
1985	648,333	265,542	913,875
1986	621,026	99,779	720,805
	<u>\$ 3,694,040</u>	<u>\$ 1,420,882</u>	<u>\$ 5,114,922</u>

12. Net income per common share and fully diluted net income per common share

The basic net income per common share amounts have been computed after giving effect to preferred share requirements and reflect the share subdivision on a two for one basis referred to in Note 9 using the weighted average number of shares outstanding during the year of 10,685,470 (1980 - 8,678,888 after adjusting for the stock split in 1981).

Fully diluted net income per common share is not materially different from net income per common share.

13. Segmented information

In the opinion of management, the Company operates primarily in two industry segments: the custom design, development and implementation of information systems, and, the development and acquisition, marketing, delivery and support of proprietary software products.

The Company carries on business principally in two geographical segments, Canada and the United States of America. Canadian based export sales amounted to approximately \$1,800,000; (1980 - \$4,400,000).

Segmented operating profit, for the purpose of segmented information disclosure, is defined as net sales less cost of salaries and direct overheads of the business segment exclusive of corporate expenses not allocated to business segments, depreciation and amortization and interest.

SEGMENTED INFORMATION
YEAR ENDED AUGUST 31

(in thousands)	1981				1980			
	CUSTOM DESIGN	PROPRI- ETARY PRODUCTS	ELIMINA- TIONS	CONSOLI- DATED	CUSTOM DESIGN	PROPRI- ETARY PRODUCTS	ELIMINA- TIONS	CONSOLI- DATED
Segmented Revenue								
Canada	\$ 23,194	\$ 8,387	\$ 3,690	\$ 27,891	\$ 17,152	\$ 4,778	\$ 2,822	\$ 19,108
United States	1,385	-	-	1,385	197	-	-	197
	<u>\$ 24,579</u>	<u>\$ 8,387</u>	<u>\$ 3,690</u>	<u>\$ 29,276</u>	<u>\$ 17,349</u>	<u>\$ 4,778</u>	<u>\$ 2,822</u>	<u>\$ 19,305</u>
Segmented operating profit								
Canada	\$ 2,633	\$ 2,184	-	\$ 4,817	\$ 2,353	\$ 792	-	\$ 3,145
United States	381	-	-	381	49	-	-	49
	<u>\$ 3,014</u>	<u>\$ 2,184</u>	<u>-</u>	<u>5,198</u>	<u>\$ 2,402</u>	<u>\$ 792</u>	<u>-</u>	<u>3,194</u>
Investment Income				(1,265)				
Office and general expenses				3,181				1,517
Interest				163				223
Depreciation and amortization				488				200
Income tax expense (recovery)				569				(199)
				<u>\$ 2,062</u>				<u>\$ 1,453</u>
				OTHER				
Identifiable assets								
Canada	\$ 9,219	\$ 22,444	\$ 9,848	\$ 41,511	\$ 5,898	\$ 8,030	\$ 301	\$ 14,229
United States	626	-	-	626	354	-	-	354
	<u>\$ 9,845</u>	<u>\$ 22,444</u>	<u>\$ 9,848</u>	<u>\$ 42,137</u>	<u>\$ 6,252</u>	<u>\$ 8,030</u>	<u>301</u>	<u>\$ 14,583</u>
Depreciation and amortization								
Canada	\$ 276	\$ 177	\$ 35	\$ 488	\$ 96	\$ 104	-	\$ 200
United States	-	-	-	-	-	-	-	-
	<u>\$ 276</u>	<u>\$ 177</u>	<u>\$ 35</u>	<u>\$ 488</u>	<u>\$ 96</u>	<u>\$ 104</u>	<u>-</u>	<u>\$ 200</u>

14. Related party transactions (See also note 15)

During the year ended August 31, 1981, the Company issued 700,000 Class A Common Shares to its parent company Kinburn Capital Corporation ("Kinburn") for a total consideration of \$7,700,000. Kinburn provided management services to the Company in the aggregate amount of \$141,000 during the year. The Company redeemed 214 10% cumulative Preference shares held by an affiliated company at the par value of \$1,000 per share (note 9). In addition, an affiliated company acquired a proprietary product, a computer based system and hardware, in the amount of \$261,000.

15. Daketh share purchase

Under the terms of an agreement dated August, 1981, Systemhouse acquired on August 31, all the outstanding shares of Daketh Ltd. for consideration of 1,262,250 Class A Common Shares of Systemhouse. The Directors have assigned a value of \$2.295 to each of the 1,262,250 Class A Common Shares, being the paid up capital per Class A Common Share immediately prior to the transaction. The accounts of Daketh have been consolidated in these financial statements (at August 31, 1981, Daketh's only significant asset was 1,262,250 Class A Common Shares of Systemhouse). The shareholders of Daketh have given to Systemhouse a joint and several indemnity in respect of any liabilities of Daketh, contingent or otherwise, as at August 31, 1981 over and above those shown in the accounts of Daketh as of that date included in these financial statements.

Daketh and Systemhouse amalgamated on September 1, 1981 and the 1,262,250 shares of Systemhouse owned by Daketh were cancelled with the result that the number of Class A Common Shares of Systemhouse outstanding on September 1, 1981 and the paid up capital on that date were exactly the same as immediately prior to the acquisition of the Daketh shares.

16. Comparative figures

Certain of the comparative amounts in the consolidated financial statements have been reclassified to conform with the current presentation.

Directors and Officers

The names, municipality of residence and principal occupations of the directors and officers of the Company are as follows:

Name and Municipality of Residence	Office	Principal Occupation
* John G. Bryden Fredericton, New Brunswick	Director	Partner Bryden, DiPaolo & Breen (Barristers and Solicitors)
Roderick M. Bryden..... Ottawa, Ontario	Chairman of the Board..... and Director	President and Chief Executive Officer, Kinburn Capital Corporation
* John R. Davies Kinburn, Ontario	President and Director	President and Chief Operating Officer
Charles E. O'Connor Ottawa, Ontario	Director	Partner Gowling and Henderson (Barristers and Solicitors)
* Donald W. Paterson..... Toronto, Ontario	Director	Vice President and Director Wood Gundy Ltd.
C. Ian Ross..... Ottawa, Ontario	Secretary and Director.....	Vice-President, Finance and Development and Secretary, Kinburn Capital Corporation
Keith H. Soley..... Nepean, Ontario	Senior Vice-President..... and Director	Senior Vice-President Business Development and Corporate Planning
David J. McConomy Ottawa, Ontario	Vice-President	Vice-President Finance and Corporate Services
Brian E. Greenleaf Carp, Ontario	Vice-President	Vice-President Advanced Technology
Douglas W. Seaborn Ottawa, Ontario	Vice-President	Vice-President Product Development
Peter A. Sandiford Ottawa, Ontario	Vice-President	Vice-President Services and Vice- President, Central Region and Eastern Region
Francis T. Watts..... Ashburn, Ontario	Vice-President	Vice-President Product Sales and Marketing
E. Vic Oliver..... Ottawa, Ontario	Vice-President	Vice-President Client Services
Vic B. Allen..... Spencerville, Ontario	Vice-President	Vice-President Corporate Planning
J. Michael Fox..... Vancouver, British Columbia	Vice-President	Vice-President Pacific Region
Les J. Silver..... Calgary, Alberta	Vice-President	Vice-President Western Region

* Members of the audit committee

Registrar and Transfer Agent:	Auditors:	Corporate Bankers:	Corporate Offices:	Stock Exchange Listing:
Canada Trust Company, 110 Yonge Street Toronto, Ontario M5C 1T4	Clarkson Gordon 160 Elgin Street Ottawa, Ontario K2P 2C4	Bank of Montreal 144 Wellington St. Ottawa, Ontario K1P 5T3	90 Sparks St. Ottawa, Ontario K1P 5B4 (613) 234-6544	Toronto Stock Exchange Montreal Stock Exchange

Systemhouse Office Locations

Gingko, Toronto

**North American Offices**

Vancouver
 Calgary
 Edmonton
 Regina
 Winnipeg
 London
 Toronto
 Ottawa
 Montreal
 Fredericton
 Halifax

San Francisco
 San Diego
 Los Angeles
 Orange County
 St. Louis
 Chicago
 Cleveland
 Washington
 New York
 Boston
Overseas Office
 Malaysia

Systemhouse Ltd.

Corporate Offices
 Royal Bank Centre
 90 Sparks Street
 Ottawa, Ontario
 K1P 5B4
 (613) 234-6544

Systemhouse Inc.

Corporate Offices
 1300 North 17 St.
 Arlington, Virginia 22209
 (703) 276-1414

