

Notes to the consolidated financial statements

*Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)*

1. Description of business

CGI Group Inc. (the “Company”), directly or through its subsidiaries, manages information technology (“IT services”), namely outsourcing, systems integration and consulting, software licenses and maintenance, and business process services (“BPS”) to help clients cost effectively realize their strategies and create value.

2. Summary of significant accounting policies

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), which differ in certain material respects with US GAAP. Significant differences relevant to the Company are presented in Note 26.

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2005.

RESTATEMENT

The Company provides a centralized service to the Canadian property and casualty insurance industry for the purpose of ordering abstracts of driving records from government authorities. Following its ongoing accounting reviews, the Company revised its interpretation of the accounting treatment related to those services. The revised interpretation required that the revenue and applicable costs of services charged to clients, which are included in Costs of services, selling and administrative expenses, be presented on a net basis rather than on a gross basis as they had been presented previously. For comparative purposes, the reclassification amounts to \$52,903,000 for the year ended September 30, 2004, as well as \$54,086,000 for the year ended September 30, 2003. The revised presentation is in accordance with Emerging Issue Committee (“EIC”) Abstract 123, “Reporting Revenue Gross as a Principal versus Net as an Agent”, which addresses whether an enterprise should recognize revenue based upon the gross amount billed to the client or the net amount retained. This reclassification had no impact on net earnings or cash flows.

CHANGE IN ACCOUNTING POLICIES

- i) The Canadian Institute of Chartered Accountants (“CICA”) amended Handbook Section 3870, “Stock-Based Compensation and Other Stock-Based Payments”, effective for fiscal years beginning on or after January 1, 2004. The amendments of the section required the adoption of the fair-value based method for all stock-based awards and the recognition of an expense in the financial statements. The Company adopted the amendments of this section on a retroactive basis effective on October 1, 2004, for employee stock options granted since October 1, 2001, and beyond. As a result of applying this change, the Company has reflected an additional expense of \$20,554,000 (see Note 10) recorded in cost of services, selling and administrative expenses for the year ended September 30, 2005, and restated comparative figures for September 30, 2004 and 2003 by \$25,559,000 (basic and diluted earnings per share of \$0.06) and \$8,168,000 (basic and diluted earnings per share of \$0.02), respectively. An adjustment to retained earnings and contributed surplus of \$37,857,000 as at September 30, 2004, has been made to reflect the application of this change. For years ended September 30, 2004 and 2003, retained earnings, beginning of period, have been reduced by \$12,298,000 and \$4,130,000, respectively.
- ii) The CICA issued Handbook Section 3110, “Asset Retirement Obligations”, effective for fiscal years beginning on or after January 1, 2004. The section focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The Company adopted the recommendations of the section on a retroactive basis effective on October 1, 2004. As a result, the Company recorded as at September 30, 2004: an increase in capital assets of \$880,000, an increase in accrued integration charges and other long-term liabilities of \$1,687,000 and a decrease in retained earnings of \$807,000. The impact on the Company’s consolidated statements of earnings for comparative periods was negligible. The impact of this accounting change on the Company’s consolidated financial statements as at and for the year ended September 30, 2005, is disclosed in Note 4.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

- iii) The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which provides clarification on the consolidation of entities when equity investors are not considered to have a controlling financial interest or they have not invested enough equity to allow the entity to finance its activities without additional subordinated financial support from other parties. This guideline came into effect for interim periods beginning on or after November 1, 2004. The adoption of this guideline did not have any impact on the Company's consolidated financial statements.
- iv) The CICA issued EIC Abstract 150, "Determining when an arrangement contains a lease", which provides guidance on how to determine whether an arrangement contains a lease that is within the scope of CICA Handbook Section 3065, "Leases". The guidance in EIC 150 is based on whether the arrangement conveys to the purchaser the right to use a tangible asset, and is effective for the Company for arrangements entered into or modified after January 1, 2005. The adoption of this EIC did not have any impact on the Company's consolidated financial statements.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Significant estimates include, but are not limited to, the measurement of allowance for doubtful accounts, tax credits, work in progress, deferred revenue, long-term asset valuations and impairment assessments, income taxes, provisions and contingencies.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions and balances have been eliminated. The Company accounts for its jointly-controlled investments using the proportionate consolidation method. For investments whereby the Company has the ability to exercise significant influence, the Company accounts for these under the equity method. In situations whereby the Company does not exercise significant influence, the investments are recorded at cost. The carrying amount of the investments is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable.

REVENUE RECOGNITION, WORK IN PROGRESS AND DEFERRED REVENUE

The company generates revenue principally through the provision of IT services and BPS.

The IT services include a full range of information technology services, namely i) outsourcing ii) systems integration and consulting iii) software licenses and iv) maintenance. The BPS unit provides business processing for the financial services sector, as well as other services such as payroll and document management services.

The Company provides services under contracts that contain various pricing mechanisms. The Company recognizes revenue when persuasive evidence of an arrangement exists, services or products have been provided to the client, the fee is fixed or determinable, and collectibility is reasonably assured. If an arrangement involves the provision of multiple elements, the total arrangement value is allocated to each element as a separate unit of accounting, if 1) the delivered item has value to the client on a stand-alone basis; 2) there is objective and reliable evidence of the fair value of the undelivered item; and 3) the arrangement includes a general right of return relative to the delivered item and delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. If these criteria are met, then the total consideration of the arrangement is allocated among the separate units of accounting based on their fair value.

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

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

2. Summary of significant accounting policies (continued)

OUTSOURCING AND BPS ARRANGEMENTS

Revenue from outsourcing and BPS arrangements under time and materials and unit-priced arrangements are recognized as the services are provided at the contractual stated price. If the contractual per-unit prices within a unit-priced contract change during the term of the arrangement, the Company evaluates whether it is more appropriate to record revenue based on the average per-unit prices during the term of the contract or based on the actual amounts billed.

Revenue from outsourcing and BPS arrangements under fixed fee arrangements is recognized on a straight-line basis over the term of the arrangement, regardless of the amounts billed, unless there is a better measure of performance or delivery.

SYSTEMS INTEGRATION AND CONSULTING SERVICES

Revenue from systems integration and consulting services under time and material arrangements is recognized as the services are rendered and revenue under cost-based arrangements is recognized as reimbursable costs are incurred.

Revenue from systems integration and consulting services under fixed fee arrangements is recognized using the percentage-of-completion method over the implementation period. The Company uses the labor costs or labor hours incurred to date to measure the progress towards completion. This method relies on estimates of total expected labor costs or total expected labor hours to complete the service, which are compared to labor costs or labor hours incurred to date, to arrive at an estimate of the percentage of revenue earned to date. Management regularly reviews underlying estimates of total expected labor costs or hours. Revisions to estimates are reflected in the statement of earnings in the period in which the facts that give rise to the revision become known.

Revenue from systems integration and consulting services under benefits-funded arrangements is recognized only to the extent it can be predicted, with reasonable certainty, that the benefit stream will generate amounts sufficient to fund the value on which revenue recognition is based.

SOFTWARE LICENSES AND MAINTENANCE ARRANGEMENTS

Revenue from software license arrangements is recognized upon delivery of software if persuasive evidence of an arrangement exists, collection is probable, the fee is fixed or determinable and vendor-specific evidence of an arrangement exists to allocate the total fee to the different elements of an arrangement. Vendor-specific objective evidence is typically based on the price charged when an element is sold separately.

In circumstances where the implementation services are essential to the functionality of the software or where the software requires significant customization, the Company recognizes software license revenue using the percentage-of-completion method over the implementation period as previously described.

Revenue from maintenance services for licenses sold and implemented is recognized ratably over the term of the contract.

WORK IN PROGRESS AND DEFERRED REVENUE

Amounts recognized as revenue in excess of billings are classified as work in progress. Amounts received in advance of the delivery of products or performances of services are classified as deferred revenue.

REIMBURSEMENTS

Reimbursements, including those relating to travel and other out-of-pocket expenses, and other similar third party costs, such as the cost of hardware and software resales, are included in revenue and the corresponding expense is included in costs of services.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of unrestricted cash and short-term investments having an initial maturity of three months or less at the time of acquisition.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

CAPITAL ASSETS

Capital assets are recorded at cost and are amortized over the following estimated useful lives of the assets, using principally the straight-line method:

Buildings	10 to 40 years
Leasehold improvements	Lesser of the useful life or lease term plus first renewal option
Furniture and fixtures	3 to 10 years
Computer equipment	3 to 5 years

FUNDS HELD FOR CLIENTS AND CLIENTS' FUNDS OBLIGATIONS

In connection with the Company's payroll and tax filing services, the Company collects funds for payment of payroll and taxes, temporarily holds such funds until payment is due, remits the funds to the clients' employees and appropriate tax authorities, files federal and local tax returns, and handles related regulatory correspondence and amendments. The Company presents separately the payroll funds held for clients and related obligations.

CONTRACT COSTS

Contract costs are mainly incurred in the course of two to ten year IT services and BPS contracts. These assets are recorded at cost and amortized using the straight-line method over the term of the respective contracts. Contract costs are comprised primarily of incentives and transition costs.

Occasionally, incentives are granted to clients upon signing of outsourcing contracts. These incentives can be granted either in the form of cash payments, issuance of equity instruments, or discounts awarded principally over a transition period as negotiated in the contract. In the case of an incentive taking the form of equity instruments, cost is measured at the estimated fair value of the equity instruments at the time they are issued. For incentives in the form of discounts, cost is measured at the value of the financial commitment granted and a corresponding amount is recorded in other long-term liabilities. As services are provided to the client, the amount is amortized and recorded as a reduction of revenue.

Capital assets acquired from a client in connection with outsourcing contracts are capitalized to capital assets and amortized, consistent with the amortization policies described previously. The excess of the amount paid over the fair value of capital assets acquired in connection with outsourcing contracts are considered as an incentive granted to the client and are recorded as described in the preceding paragraph.

Transition costs include the expenses associated with certain activities performed after completion of a competitive selection process such as architecture and engineering work engaged prior to the final award of a large outsourcing contract as well as costs incurred during the transition period such as installation of systems and processes deployed after the award of the outsourcing contracts, relocation of transitioned employees, and exit from client facilities. These incremental costs are comprised essentially of labor cost including total compensation and related fringe benefits as well as subcontractor costs.

FINITE-LIFE INTANGIBLE ASSETS

Finite-life intangible assets consist mainly of internal software, business solutions, software licenses and customer relationships.

Internal software, business solutions and software licenses are recorded at cost. Business solutions and software licenses acquired through a business combination are initially recorded at fair value based on the estimated net future income-producing capabilities of the software products. Customer relationships are acquired through business combinations and are initially recorded at their fair value based on their present value of expected future cash flows.

The Company amortizes its finite-life intangible assets using the straight-line method over the following estimated useful lives:

Internal software	2 to 7 years
Business solutions	2 to 10 years
Software licenses	3 to 8 years
Customer relationships and other	2 to 15 years

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

2. Summary of significant accounting policies (continued)

IMPAIRMENT OF LONG-LIVED ASSETS

In the event indications exist that the carrying amount of long-lived assets may not be recoverable, undiscounted estimated cash flows are projected over their remaining term, and compared to the carrying amount. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related assets, a charge is recorded to reduce the carrying amount to equal projected future discounted cash flows.

BUSINESS COMBINATIONS AND GOODWILL

The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at date of acquisition with the excess of the purchase price amount being allocated to goodwill. Goodwill is assessed for impairment at least annually for each reporting unit. An impairment charge is recorded for any goodwill that is considered impaired.

ACCRUED INTEGRATION CHARGES

Accrued integration charges are comprised of liabilities for costs incurred on business combinations, such as severance payments related to the termination of certain employees of the acquired business performing functions already available through the Company's existing structure and provisions related to leases for premises occupied by the acquired businesses which the Company plans to vacate.

EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of units outstanding during the period. The dilutive effect of stock options is determined using the treasury stock method.

RESEARCH AND SOFTWARE DEVELOPMENT COSTS

Research costs are charged to earnings in the period in which they are incurred, net of related tax credits. Included in costs of services, selling and administrative expenses are research expenses in the amount of \$21,869,000 (\$26,710,000 in 2004 and \$22,036,000 in 2003). During the year, the Company incurred direct research and software development costs of \$78,200,000 (\$64,500,000 in 2004).

Software development costs are charged to earnings in the year they are incurred, net of related tax credits unless they meet specific capitalization criteria related to technical, market and financial feasibility in order to be capitalized. Deferred development costs are included as part of finite-life intangibles. Tax credits amounting to \$1,408,000 were recorded against these assets for the year ended September 30, 2004, and there are no tax credits for these assets for the year ended September 30, 2005.

INCOME TAXES

Income taxes are accounted for using the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the amounts reported for financial statement purposes and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for the portion of the future income tax assets if its realization is not considered more likely than not.

TRANSLATION OF FOREIGN CURRENCIES

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

Self-sustaining subsidiaries whose economic activities are largely independent of the parent company are accounted for using the current-rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet dates. Revenue and expenses are translated at average exchange rates prevailing during the period. Resulting unrealized gains or losses are accumulated and reported as foreign currency translation adjustment in shareholders' equity. As a result of differences in the translation of the financial statements of foreign subsidiaries, the foreign currency translation adjustment varied by \$92,124,000 and \$69,157,000 in 2005 and 2004, respectively. These variations resulted principally from translating US dollar denominated goodwill.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

The accounts of foreign subsidiaries, which are financially or operationally dependent on the parent company, are accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates and non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates for the period. Translation exchange gains or losses of such subsidiaries are reflected in net earnings.

FINANCIAL INSTRUMENTS

The Company uses various financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. The Company does not hold or use any derivative instruments for trading purposes.

The Company enters into financial instrument contracts to hedge its net investment in foreign subsidiaries. Foreign exchange translation gain or loss on the net investment is recorded under foreign currency translation adjustment. Any realized or unrealized gain or loss on instruments covering the net investment is also recognized in foreign currency translation adjustment.

The Company also enters into forward contracts to hedge forecasted cash flows denominated in currencies other than the functional currency of its subsidiaries. Gains and losses on foreign exchange contracts designated as hedges for firm commitments or forecasted transactions are recorded in costs of services, selling and administrative expenses when the related transaction is realized.

Periodic assessments of each hedge's effectiveness are performed during the year.

FUTURE ACCOUNTING CHANGES

The CICA has issued the following new Handbook Sections:

- a) Handbook Section 3855, "Financial Instruments—Recognition and Measurement", effective for interim periods beginning on or after October 1, 2006. The section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets, except for those classified as held-to-maturity, and derivative financial instruments must be measured at their fair value. All financial liabilities must be measured at their fair value if they are classified as held for trading purposes, if not, they are measured at their carrying value. The Company is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.
- b) Handbook Section 1530, "Comprehensive Income", and Section 3251, "Equity", effective for interim periods beginning on or after October 1, 2006. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available for sale financial instruments. This section describes how to report and disclose comprehensive income and its components. Section 3251, "Equity", replaces Section 3250, "Surplus", and describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income". Upon adoption of this section, the consolidated financial statements will include a statement of comprehensive income.
- c) Handbook Section 3865, "Hedges", effective for interim periods beginning on or after October 1, 2006. This section describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The Company is currently evaluating the impact of the adoption of this section on the consolidated financial statements.
- d) Handbook Section 3831, "Non-Monetary Transactions", effective for transactions initiated in periods beginning on or after January 1, 2006. This section prescribes to record non-monetary transactions at fair value unless the transaction has no commercial substance, it is an exchange of inventory, it is a non-monetary, non-reciprocal transfer to owners or it is not reliably measurable. The Company does not believe that the adoption of this section will have a significant impact on the consolidated financial statements.
- e) EIC 156, "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Product)", was issued and provides guidance to companies that give incentives to customers or resellers in the form of cash, equity, free gifts, coupons and other. The adoption of EIC 156 is effective for all interim and annual financial statements for fiscal years beginning on or after January 1, 2006. There will be no impact on the consolidated financial statements since the Company already adopted the US equivalent of EIC 156 which is the EITF 01-9 "Accounting for Consideration Given by a Vendor to a Customer" issued by the Financial Accounting Standards Board's Emerging Issues Task Forces as at September 30, 2002.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

3. Accounts receivable

	2005 \$	2004 \$
Trade	357,679	432,685
Other ¹	130,052	113,601
	487,731	546,286

¹ Other accounts receivable include refundable tax credits on salaries related to the E-Commerce Place, Cité du multimédia, New Economy Centre, SR&ED and other tax credit programs, of approximately \$93,287,000 and \$79,865,000, in 2005 and 2004, respectively.

The Company is defined as an eligible company and operates "eligible activities" under the terms of various Québec government tax credit programs on salaries for eligible employees located mainly in designated locations in the province of Québec, Canada. These programs are designed to support job creation and revitalization efforts in certain urban areas. As part of the Company's participation in these programs, the Company committed to maintain and create 2,000 jobs in Québec. As at September 30, 2005, the Company had maintained or created more than a total of 4,250 jobs in Québec.

As per these programs, the Company also relocated some of its employees into new or refurbished buildings mostly in 2004, where the real estate cost is significantly higher than in its previous facilities.

Initially, the Company's financial commitments for these real estate locations represented \$618,800,000. As at September 30, 2005, the balance outstanding for these commitments, ranging between four and 18 years, was \$524,630,000.

These refundable tax credits are calculated at rates of 35% to 40% on salaries paid in Québec, to a maximum of \$12,500 to \$15,000 per year per eligible employee. These credits on salaries carry certain conditions and the Company must obtain an eligibility certificate from the Québec government annually. Should the Company fail to meet its obligations defined under the current tax credits on salaries programs, a portion of tax credits received would have to be refunded to the Québec government. Any refund made by the Company would be charged to earnings in the corresponding period. No liability has been recorded related to any reimbursement clause as of September 30, 2005.

4. Capital assets

	2005			2004		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
	\$	\$	\$	\$	\$ RESTATE	\$
Land and buildings	5,113	907	4,206	4,377	538	3,839
Leasehold improvements	105,779	26,858	78,921	107,417	25,411	82,006
Furniture and fixtures	24,979	13,286	11,693	40,507	20,516	19,991
Computer equipment	60,330	38,762	21,568	106,614	68,809	37,805
	196,201	79,813	116,388	258,915	115,274	143,641

Capital assets include assets acquired under capital leases totaling \$3,461,000 (2004—\$4,516,000), net of accumulated amortization of \$2,975,000 (2004—\$4,215,000).

The asset retirement obligations pertain to operating leases of office buildings in different locations where certain clauses require premises to be returned to their original state at the end of the lease term. The cost of asset retirement obligations of \$2,469,000 was based on the undiscounted expected cash flows of \$3,600,000 using a discount rate of 5.78%. The timing of the settlement of these obligations varies between one and 18 years.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

5. Contract costs

	2005			2004		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
	\$	\$	\$	\$	\$	\$
Incentives	247,449	103,846	143,603	291,339	97,482	193,857
Transition costs	112,788	27,745	85,043	100,919	16,536	84,383
	360,237	131,591	228,646	392,258	114,018	278,240

6. Finite-life intangibles and other long-term assets

	2005		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
	\$	\$	\$
Internal software	75,088	31,056	44,032
Business solutions	227,214	51,114	176,100
Software licenses	135,991	69,644	66,347
Customer relationships and other	382,111	103,819	278,292
Finite-life intangibles	820,404	255,633	564,771
Financing lease (NOTE 18)			1,788
Deferred financing fees and other			14,083
Other long-term assets			15,871
Total finite-life intangibles and other long-term assets			580,642

	2004		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
	\$	\$	\$
Internal software	72,515	25,549	46,966
Business solutions	226,412	48,286	178,126
Software licenses	142,578	61,878	80,700
Customer relationships and other	346,107	60,763	285,344
Finite-life intangibles	787,612	196,476	591,136
Financing lease			13,121
Investment in an entity subject to significant influence			16,415
Deferred financing fees and other			9,408
Other long-term assets			38,944
Total finite-life intangibles and other long-term assets			630,080

Amortization expense of finite-life intangibles is presented as follows in the consolidated statements of earnings:

	2005	2004	2003
	\$	\$	\$
Internal software	16,731	15,003	11,990
Business solutions	29,129	23,054	11,682
Software licenses	31,653	33,905	28,420
Customer relationships and other	47,536	30,158	20,454
	125,049	102,120	72,546

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

7. Goodwill

The Company has designated September 30 as the date for the annual impairment test. The Company completed its annual goodwill impairment test as of September 30, 2005. Based on the results of this test, no impairment losses were identified.

The variations in goodwill are as follows:

	2005			2004		
	IT SERVICES	BPS	TOTAL	IT SERVICES	BPS	TOTAL
	\$	\$	\$	\$	\$	\$
Balance, beginning of year	1,532,413	295,191	1,827,604	1,056,103	329,415	1,385,518
Acquisitions (NOTE 16)	51,557	619	52,176	556,354	105	556,459
Purchase price adjustments (NOTE 16)	(13,775)	12,269	(1,506)	(9,716)	(1,610)	(11,326)
Disposal of subsidiaries (NOTE 16)	—	(16,152)	(16,152)	(5,693)	(20,640)	(26,333)
Foreign currency translation adjustment	(76,062)	(12,690)	(88,752)	(64,635)	(12,079)	(76,714)
Balance, end of year	1,494,133	279,237	1,773,370	1,532,413	295,191	1,827,604

8. Long-term debt

	2005	2004
	\$	\$
Senior US unsecured notes, bearing interest at a weighted average rate of 4.97% and repayable by payments of \$98,758,500 in 2009, of \$100,987,800 in 2011 and \$23,184,700 in 2014 ¹	222,931	242,669
Unsecured committed revolving term facility ²	—	221,182
Obligation bearing interest at a rate of 1.60% and repayable in blended monthly instalments maturing in 2008	9,214	—
Balances of purchase price related to business acquisitions, non-interest bearing, repayable in various instalments through 2008. These balances were recorded at their discounted value using a 7% interest rate	7,241	6,108
Obligations under capital leases, bearing interest at a weighted-average rate of 8.11% and repayable in blended monthly instalments maturing at various dates until 2008	2,005	4,296
Other loans bearing interest at a rate of prime plus 1.75%, repayable at various dates until 2006	684	1,277
Share of joint venture's long-term debt		
Secured term loan repayable in blended monthly payments of \$540,249, at an interest rate of 3.46%, maturing in 2007 ³	6,965	12,885
Redeemable preferred shares ⁴	660	1,403
	249,700	489,820
Current portion	14,899	14,529
	234,801	475,291

¹ The US\$192,000,000 private placement financing with US institutional investors is comprised of three tranches of senior unsecured notes maturing in January 2009, 2011 and 2014 and was issued on January 29, 2004 with a weighted average maturity of 6.4 years and a weighted average fixed coupon interest rate of 4.97%.

² The Company entered into a five-year unsecured revolving credit facility for an amount of \$800,000,000. This agreement comprises a Canadian tranche with a limit of \$500,000,000 and a U.S. tranche equivalent to \$300,000,000. The interest rate charged is determined by the denomination of the amount drawn. In addition to this revolving credit facility, the Company has available demand lines of credit in the amounts of \$27,000,000 and £2,000,000. As at September 30, 2005, an amount of \$13,942,000 has been committed against these facilities to cover various letters of credit issued for clients. The credit facilities include covenants which require the Company to maintain certain financial ratios. As of September 30, 2005, these financial ratios were met and no amount had been drawn upon these facilities.

³ In 2003, one of the Company's joint ventures, which is 49% owned, entered into a \$38,639,068 term loan, repayable by blended monthly payments of \$1,102,548, maturing in December 2006. In addition, as part of the credit agreement, the joint venture has an unsecured \$10,000,000 operating credit facility, to be renewed after 364 days. As at September 30, 2005, there is no amount outstanding under this facility.

⁴ The same joint venture entered into a subscription agreement for the issuance of 10,000,000 redeemable preferred shares at the option of the holder under certain conditions. These preferred shares are non-voting and are not entitled to receive dividends. Upon liquidation, dissolution, winding-up of the joint venture (voluntary or involuntary), holders of the preferred shares are entitled to receive for each share, in preference and priority to any dividends of the assets of the joint venture to the common shareholders, an amount equal to: a) \$1.00 (issue price) per share plus 4.20% of the issue price, compounded annually; and b) an amount otherwise agreed to from time to time in writing from the joint venture.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

Principal repayments on long-term debt over the forthcoming years are as follows:

	\$
2006	13,653
2007	7,828
2008	3,282
2009	98,759
2010	—
Thereafter	124,173

Minimum capital lease payments are as follows:

	PRINCIPAL	INTEREST	PAYMENT
	\$	\$	\$
2006	1,246	113	1,359
2007	588	27	615
2008	161	5	166
2009	10	—	10
Total minimum capital lease payments	2,005	145	2,150

9. Capital stock

Authorized, an unlimited number without par value:

First preferred shares, carrying one vote per share, ranking prior to second preferred shares, Class A subordinate shares and Class B shares with respect to the payment of dividends;

Second preferred shares, non-voting, ranking prior to Class A subordinate shares and Class B shares with respect to the payment of dividends;

Class A subordinate shares, carrying one vote per share, participating equally with Class B shares with respect to the payment of dividends and convertible into Class B shares under certain conditions in the event of certain takeover bids on Class B shares;

Class B shares, carrying ten votes per share, participating equally with Class A subordinate shares with respect to the payment of dividends, convertible at any time at the option of the holder into Class A subordinate shares.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

9. Capital stock (continued)

For 2005, 2004 and 2003, the Class A subordinate and the Class B shares changed as follows:

	CLASS A SUBORDINATE SHARES		CLASS B SHARES	
	NUMBER	CARRYING VALUE	NUMBER	CARRYING VALUE
		\$		\$
Balance, September 30, 2002	339,900,257	1,278,416	40,799,774	54,205
Issued as consideration for business acquisitions (NOTE 16)	19,963,399	140,546	—	—
Conversion ¹	7,027,606	9,337	(7,027,606)	(9,337)
Options exercised ⁴	1,345,241	7,464	—	—
Balance, September 30, 2003	368,236,503	1,435,763	33,772,168	44,868
Issued for cash ²	41,340,625	330,725	—	—
Issued as consideration for business acquisitions (NOTE 16)	136,112	1,020	—	—
Options exercised ⁴	1,007,651	7,854	—	—
Balance, September 30, 2004	410,720,891	1,775,362	33,772,168	44,868
Repurchased and cancelled ³	(14,078,360)	(60,998)	—	—
Repurchased and not cancelled ³	—	(3,665)	—	—
Options exercised ⁴	805,798	7,406	—	—
BALANCE, SEPTEMBER 30, 2005	397,448,329	1,718,105	33,772,168	44,868

¹ As part of an agreement on July 24, 2003, entered into by the Majority Shareholders and BCE Inc., 7,027,606 Class B shares with a carrying value of \$9,337,000 were converted into an equivalent number of Class A subordinate shares.

² On May 3, 2004, the Company issued 41,340,625 Class A subordinate shares to the public and to BCE Inc. for cash proceeds of \$330,725,000 before share issue costs of \$5,489,000 (net of income tax recoveries of \$2,466,000).

³ On February 1, 2005, the Company announced that its Board of Directors had authorized a share repurchase program under which it may repurchase up to a maximum of 27,834,417 of its Class A subordinate shares for cancellation from February 3, 2005, to February 2, 2006. During 2005, the Company repurchased 14,896,200 Class A subordinate shares for consideration of \$116,439,000 including redemption fees in the amount of \$261,000. Also during 2005, the Company received and cancelled 28,360 Class A subordinate shares for consideration of \$202,000 as a settlement of an account receivable accounted for as part of a 2003 business acquisition. The excess of the purchase price over the carrying value of Class A subordinate shares repurchased in the amount of \$51,978,000 was charged to retained earnings. As of September 30, 2005, 846,200 of the repurchased Class A subordinate shares with a carrying value of \$3,665,000 were held by the Company and had not been cancelled.

⁴ The carrying value of Class A subordinate shares includes \$2,855,000 (\$2,094,000 in 2004 and \$1,013,000 in 2003), which corresponds to a reduction in contributed surplus representing the value of compensation cost associated with the options exercised since inception and the value of exercised options assumed in connection with acquisitions.

10. Stock options, warrants and contributed surplus

A) STOCK OPTIONS

Under the Company's stock option plan, the Board of Directors may grant, at its discretion, options to purchase Class A subordinate shares to certain employees, officers, directors and consultants of the Company and its subsidiaries. The exercise price is established by the Board of Directors and is equal to the closing price of the Class A subordinate shares on the Toronto Stock Exchange ("TSX") on the day preceding the date of the grant. Options generally vest one year from the date of grant conditionally upon achievement of objectives and must be exercised within a ten-year period, except in the event of retirement, termination of employment or death. As at September 30, 2005, 41,143,889 Class A subordinate shares have been reserved for issuance under the Stock option plan.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

The following table presents information concerning all outstanding stock options granted by the Company for the years ended September 30:

	2005		2004		2003	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
		\$		\$		\$
Outstanding, beginning of year	25,537,300	9.20	20,459,515	9.69	20,814,820	10.79
Granted	5,079,636	8.48	7,577,166	7.90	4,600,502	6.24
Exercised	(805,798)	5.61	(1,007,651)	5.61	(1,345,241)	4.82
Forfeited and expired	(3,272,484)	11.60	(1,491,730)	9.71	(3,610,566)	10.18
Outstanding, end of year	26,538,654	8.79	25,537,300	9.20	20,459,515	9.69
Exercisable, end of year	21,308,252	8.89	16,492,063	9.93	15,110,007	10.45

The following table summarizes information about outstanding stock options granted by the Company as at September 30, 2005:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
RANGE OF EXERCISE PRICE					
	\$		\$		\$
1.64 to 2.32	229,824	5	2.23	229,824	2.23
4.37 to 6.98	3,724,788	7	6.18	3,509,270	6.18
7.00 to 7.87	6,680,454	8	7.76	6,634,550	7.76
8.00 to 8.99	11,330,110	8	8.66	6,397,786	8.78
9.05 to 10.96	1,896,199	5	9.91	1,859,543	9.92
11.34 to 14.85	1,117,215	3	13.65	1,117,215	13.65
15.01 to 20.90	1,506,575	4	16.27	1,506,575	16.27
21.45 to 26.03	53,489	4	23.41	53,489	23.41
	26,538,654	7	8.79	21,308,252	8.89

The following table presents the weighted average assumptions used to determine the stock-based compensation expense recorded in cost of services, selling and administrative expenses using the Black-Scholes option pricing model for the years ended September 30:

	2005	2004	2003
Compensation expense (\$)	20,554	25,559	8,168
Dividend yield (%)	0.00	0.00	0.00
Expected volatility (%)	45.80	47.40	52.70
Risk-free interest rate (%)	3.92	3.93	4.21
Expected life (YEARS)	5	5	5
Weighted average grant date fair values (\$)	3.85	3.68	3.16

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

10. Stock options, warrants and contributed surplus (continued)

B) WARRANTS

In connection with the signing of a strategic outsourcing contract and of a business acquisition in 2001, the Company granted warrants entitling the holders to subscribe to up to 5,118,210 Class A subordinate shares. The exercise prices were determined using the average closing price for Class A subordinate shares at a date and for a number of days around the respective transaction dates. The warrants vest upon signature of the contract or date of business acquisition, and have an exercise period of five years. As at September 30, 2005, there were 5,118,210 warrants issued and outstanding, 4,000,000 of which are exercisable at a price of \$6.55 per share and expire April 30, 2006, and the remaining 1,118,210 are exercisable at a price of \$8.78 per share expiring June 13, 2006. The fair values of the warrants, totaling \$19,655,000, were estimated at their respective grant dates using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.9%, dividend yield of 0.0%, expected volatility of 57.7% and expected life of five years.

In addition to the warrants to purchase up to 5,118,210 Class A subordinate shares referred to above (the "Initial Warrants"), the Company issued to the majority shareholders and BCE Inc. ("BCE"), warrants (the "Pre-emptive Rights Warrants") to subscribe in the aggregate up to 3,865,014 Class A subordinate shares and 697,044 Class B shares pursuant to their pre-emptive rights contained in the articles of incorporation of the Company, with substantially similar terms and conditions as those of the Initial Warrants. The Pre-emptive Rights Warrants may be exercised by BCE and the Majority Shareholders only to the extent that the holders of the Initial Warrants exercise such Initial Warrants. Upon the exercise by BCE of its rights under its Pre-emptive Rights Warrants to subscribe to 140,575 Class B shares, BCE has undertaken to give instructions to the Secretary of the Company upon the exercise of such Warrants, to convert each of such Class B shares into one Class A subordinate share upon their issuance.

Furthermore, subject to regulatory approval, the Company has undertaken in favor of a holder of Initial Warrants to purchase up to 4,000,000 Class A subordinate shares to issue promptly after April 30, 2006 (the "Expiration Date"), replacing warrants (the "Extended Warrants") to purchase Class A subordinate shares equal to the number of Class A subordinate shares not purchased by such holder under the terms of the Initial Warrants on the Expiration Date. The Extended Warrants will have substantially similar terms and conditions as those of the Initial Warrants, except for the exercise price, which will be based upon the closing price of the Class A subordinate shares on the TSX on the date preceding the issuance of the Extended Warrants.

C) CONTRIBUTED SURPLUS

The following table summarizes the contributed surplus activity since September 30, 2002:

	\$
Balance, September 30, 2002, as previously reported	3,652
Value of options assumed in connection with acquisitions ¹	11,477
Change in accounting policy—stock-based compensation (NOTE 2)	4,130
Balance, September 30, 2002, restated	19,259
Value of exercised options assumed in connection with acquisitions ¹	(1,013)
Change in accounting policy—stock-based compensation (NOTE 2)	8,168
Balance, September 30, 2003, restated	26,414
Value of exercised options assumed in connection with acquisitions ¹	(2,094)
Change in accounting policy—stock-based compensation (NOTE 2)	25,559
Balance, September 30, 2004, restated	49,879
Value of exercised options assumed in connection with acquisitions	(1,136)
Value of compensation cost associated with exercised options	(1,719)
Fair value of options granted	20,554
BALANCE, SEPTEMBER 30, 2005	67,578

¹ The options assumed in connection with acquisitions, which were presented in the Warrants and stock options caption in 2004, have been reclassified in Contributed surplus caption in 2005.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

11. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the years ended September 30:

	2005			2004			2003		
	WEIGHTED AVERAGE NUMBER OF SHARES			WEIGHTED AVERAGE NUMBER OF SHARES			WEIGHTED AVERAGE NUMBER OF SHARE		
	NET EARNINGS (NUMERATOR)	OUTSTANDING ¹ (DENOMINATOR)	EARNINGS PER SHARE	NET EARNINGS (NUMERATOR)	OUTSTANDING (DENOMINATOR)	EARNINGS PER SHARE	NET EARNINGS (NUMERATOR)	OUTSTANDING (DENOMINATOR)	EARNINGS PER SHARE
	\$		\$	\$		\$	\$		\$
Net earnings	216,488	439,349,210	0.49	194,041	419,510,503	0.46	169,198	395,191,927	0.43
Dilutive options ²	—	1,077,743	—	—	1,994,835	—	—	1,508,995	—
Dilutive warrants ²	—	1,146,559	—	—	1,595,014	—	—	764,755	—
Net earnings after assumed conversions	216,488	441,573,512	0.49	194,041	423,100,352	0.46	169,198	397,465,677	0.43

¹ The 14,924,560 Class A subordinate shares repurchased during the year were excluded from the calculation of earnings per share as of the date of repurchase.

² The calculation of the dilutive effects excludes all anti-dilutive options and warrants that would not be exercised because their exercise price is higher than the average market value of a Class A subordinate share of the Company for each of the periods shown in the table. The number of excluded options was 22,140,883 and 13,194,520 for the years ended September 30, 2005 and 2004, respectively. The number of excluded warrants was 2,113,041 for the years ended September 30, 2005 and 2004.

12. Amortization

	2005	2004	2003
	\$	\$	\$
Amortization of capital assets	41,420	46,804	42,332
Amortization of contract costs related to transition costs	14,548	9,633	4,219
Amortization of finite-life intangibles and other long-term assets (NOTE 6)	125,049	102,120	72,546
Impairment of contract costs and finite-life intangibles (NOTE 13)	18,266	4,034	—
	199,283	162,591	119,097
Amortization of contract costs related to incentives (presented as reduction of revenue)	28,314	29,734	27,789
Impairment of contract costs related to incentives (presented as reduction of revenue)	3,336	—	—
	230,933	192,325	146,886

The 2005 contract costs and finite-life intangibles impairment of \$18,266,000 is composed of write-offs of \$11,932,000 of contract costs and \$6,334,000 of finite-life intangibles. The 2005 and 2004 write-offs relate to certain non-performing assets that are no longer expected to provide future value.

13. Sale of right

On June 15, 2005, the Company entered into an alliance (“arrangement”) with a financial institution. Under this arrangement, the Company has sold to this financial institution a right to access the Company’s Canadian Credit Union (“Credit Union”) clients in order to offer them its business solutions in exchange for cash consideration of \$13,500,000. A portion of this consideration in the amount of \$2,500,000 has been recorded as deferred revenue and will be reversed to earnings upon certain conditions being met. Additional consideration, up to a maximum of \$10,000,000, may be received by the Company based on the number of Credit Union clients transitioning to the financial institution’s business solutions. The Company will continue to support or provide services to the Credit Unions with its current solutions and methodologies until this transitioning is completed. As a result of the above transaction, contract costs and business solutions relating to the Credit Unions in the amount of \$5,106,000 and \$4,495,000, respectively, were impaired and included in amortization expense.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

14. Income taxes

The income tax provision is as follows for the years ended September 30:

	2005 \$	2004 \$ RESTATED	2003 \$ RESTATED
Current	78,476	57,615	66,808
Future	35,650	55,626	46,249
	114,126	113,241	113,057

The Company's effective income tax rate differs from the combined Canadian statutory tax rate for the following reasons for the years ended September 30:

	2005 %	2004 % RESTATED	2003 % RESTATED
Canadian statutory tax rate	31.0	31.5	33.6
Effect of provincial and foreign tax rate differences	3.7	2.1	0.9
Non-deductible stock options	1.9	2.9	1.0
Other non-deductible items	0.3	0.8	0.8
Benefit arising from investment in subsidiaries	(3.1)	(1.9)	—
Valuation allowance relating to tax benefits on losses	0.1	0.9	2.5
Other	0.3	1.6	1.7
Effective income tax rate	34.2	37.9	40.5

Future income taxes are as follows at September 30:

	2005 \$	2004 \$
Future income tax assets:		
Accrued integration charges and accounts payable and accrued liabilities	37,373	83,254
Tax benefits on losses carried forward	82,132	94,039
Accrued compensation	19,263	19,000
Allowance for doubtful accounts	2,241	6,695
Share issue costs	2,865	4,724
Other	5,574	6,457
	149,448	214,169
Future income tax liabilities:		
Capital assets, contract costs and finite-life intangibles and other long-term assets	253,134	276,223
Work in progress	28,092	34,027
Goodwill	10,699	3,163
Refundable tax credits on salaries	32,400	25,001
Other	15,043	17,622
	339,368	356,036
Valuation allowance	27,507	32,686
Future income taxes, net	(217,427)	(174,553)

Future income taxes are classified as follows:

Current future income tax assets	22,118	79,584
Long-term future income tax assets	46,601	101,899
Current future income tax liabilities	(47,163)	(68,603)
Long-term future income tax liabilities	(238,983)	(287,433)
Future income tax liabilities, net	(217,427)	(174,553)

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

At September 30, 2005, the Company had \$235,329,000 in non-capital losses carried forward which expire at various dates to 2022. The Company recognized a future tax asset of \$82,132,000 on the non-capital losses carried forward and recognized a valuation allowance of \$27,507,000 in relation with these losses where their realization is unlikely. Should this valuation allowance be reversed, goodwill would be reduced by approximately \$23,049,000 and income tax expense would be reduced of approximately \$4,458,000.

In the previous year, the Company reversed its valuation allowance by an amount of \$44,707,000 (US\$35,375,000) in reduction of the American Management Systems, Incorporated ("AMS") goodwill when it became more likely than not that benefits would be realized.

Foreign earnings of certain of the Company's subsidiaries would be taxed only upon their repatriation to Canada. The Company has not recognized a future tax liability for these retained earnings as management does not expect them to be repatriated. A future tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable matter, such as the sale of the investment or through the receipt of dividends. On remittance, certain countries impose withholding taxes that, subject to certain limitations, are then available for use as tax credits against a federal or provincial income tax liability, if any. Determination of the amount of unrecognized federal and provincial future income tax liability for these retained earnings or foreign tax withholding is not practicable because of the complexities associated with its hypothetical calculation.

15. Costs of services, selling and administrative

Tax credits netted against costs of services, selling and administrative are as follows:

	2005 \$	2004 \$ RESTATED	2003 \$ RESTATED
Costs of services, selling and administrative	3,218,668	2,739,927	2,247,762
Less: tax credits (NOTE 3)	(67,110)	(62,531)	(65,315)
	3,151,558	2,677,396	2,182,447

16. Investments in subsidiaries and joint ventures

For all business acquisitions, the Company began recording the results of operations of the acquired entities as of their respective effective acquisition dates.

2005 TRANSACTIONS

a) Acquisitions

In 2005, the Company increased its interest in one of its joint ventures and made five acquisitions of which the most significant were the following:

- AGTI Services Conseils Inc. ("AGTI")—On December 1, 2004, the Company purchased the remaining outstanding shares of a Montreal-based information technology consulting enterprise specializing in business and IT consulting, project and change management and productivity improvement. The acquisition was accounted for as a step-by-step purchase. The Company previously held 49% of the outstanding shares of AGTI and accounted for its investment using proportionate consolidation.
- MPI Professionals ("MPI")—On August 10, 2005, the Company acquired substantially all of the assets of MPI. MPI provides management solutions for the financial services sector.
- Silver Oak Partners Inc. ("Silver Oak")—On September 2, 2005, the Company acquired all outstanding shares of Silver Oak. Silver Oak is a leading provider of spend management solutions in both the government and commercial sectors.

The acquisitions were accounted for using the purchase method. The purchase price allocations shown below are preliminary and based on the Company's best estimates. The final purchase price allocations are expected to be completed as soon as the Company's management has gathered all the significant information believed to be available and considered necessary in order to finalize these allocations.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

16. Investments in subsidiaries and joint ventures (continued)

2005 TRANSACTIONS (CONTINUED)

a) Acquisitions (continued)

	AGTI	OTHER	TOTAL
	\$	\$	\$
Non-cash working capital items	(1,302)	(397)	(1,699)
Capital assets	368	521	889
Internal software	9	17	26
Business solutions	—	7,315	7,315
Customer relationships and other	17,493	7,918	25,411
Goodwill ¹	32,471	19,705	52,176
Future income taxes	(4,561)	(2,272)	(6,833)
	44,478	32,807	77,285
Cash acquired	2,702	2,569	5,271
Net assets acquired	47,180	35,376	82,556
Consideration			
Cash	47,067	26,707	73,774
Holdback payable (discounted)	—	8,450	8,450
Acquisition costs	113	219	332
	47,180	35,376	82,556

¹ Includes \$5,649,000 of goodwill deductible for tax purposes.

In connection with the acquisitions completed in 2005, the Company has adopted certain plans to restructure and integrate the acquired businesses. Consequently, the Company established provisions related to leases for premises occupied by the acquired businesses, which the Company plans to vacate, in the amount of \$2,736,000, as well as costs related to the planned termination of certain employees of the acquired businesses performing functions already available through its existing structure in the amount of \$1,637,000.

b) Dispositions

On January 25, 2005, the Company disposed of its investment in Nexxlink Technologies Inc. at a price of \$6.05 per share for total proceeds of \$20,849,000, resulting in a pre-tax gain of \$4,216,000. This investment had previously been accounted for using the equity method.

On March 8, 2005, the Company disposed of the principal assets of Keyfacts Entreprises Canada Inc. ("Keyfacts"), a wholly-owned subsidiary of the Company, for proceeds of \$3,524,000 with an outstanding balance of sale of \$1,000,000. The net assets disposed of included goodwill of \$2,082,000. The transaction resulted in a net loss of \$1,580,000.

On March 10, 2005, the Company disposed of its US Services to Credit Unions business units and its CyberSuite product line for proceeds of \$29,186,000 (US\$24,000,000) for which there is a balance of sale of \$2,189,000 (US\$1,800,000). The net assets disposed of, including goodwill of \$14,070,000, resulted in a net loss of \$1,419,000. During the year ended September 30, 2005, a sale price adjustment was made which increased the net loss by \$296,000 (US\$239,000) after \$174,000 (US\$140,000) of tax effect and reduced the balance of sale by \$470,000 (US\$379,000).

c) Balance of integration charges

For AMS and COGNICASE Inc. ("Cognicase"), the components of the integration charges related to business acquisitions included in accounts payable and accrued liabilities and accrued integration charges and other long-term liabilities are as follows:

	CONSOLIDATION AND CLOSURE OF FACILITIES	SEVERANCE	TOTAL
	\$	\$	\$
BALANCE, OCTOBER 1, 2004	68,977	20,250	89,227
Adjustments to initial provision ¹	7,091	3,230	10,321
Foreign currency translation adjustment	(4,458)	(1,096)	(5,554)
Paid during 2005	(14,492)	(17,190)	(31,682)
BALANCE, SEPTEMBER 30, 2005 ²	57,118	5,194	62,312

¹ Has been recorded as an increase of goodwill.

² Of the total balance remaining, \$21,596,000 is included in accounts payable and accrued liabilities and \$40,716,000 is included in accrued integration charges and other long-term liabilities.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

2005 TRANSACTIONS (CONTINUED)

d) Modifications to purchase price allocations

The Company modified the purchase price allocation and made adjustments relating to certain business acquisitions resulting in a net decrease of non-cash working capital items and capital assets of \$23,080,000 and \$1,895,000, respectively, and a net increase of future income tax assets, finite-life intangibles and other long-term assets and cash of \$6,227,000, \$17,648,000 and \$2,606,000, respectively, whereas goodwill decreased by \$1,506,000. Also, \$12,500,000 of goodwill arising from the acquisition of AMS was reallocated from the IT services line of business to the BPS line of business.

2004 TRANSACTIONS

a) Acquisitions

The Company made the following acquisitions:

- AMS—On May 3, 2004, the Company acquired all outstanding shares of AMS, a business services and IT consulting firm to the government, healthcare, financial services, and communications industries.
- Other—On October 28, 2003, the Company acquired all outstanding shares of Apex Consulting Group Inc, a business service, which provides systems integration and consulting with a focus on business process improvement and new technologies. On January 14, 2004, it also acquired certain assets of GDS & Associates Systems Ltd., which provides systems integration and consulting services to clients primarily within the government sector.

The acquisitions were accounted for using the purchase method. The purchase price allocation shown below is preliminary and based on the Company's best estimates.

	AMS \$	OTHER \$	TOTAL \$
Non-cash working capital items	(200,439)	(936)	(201,375)
Capital assets	13,475	459	13,934
Internal software	7,129	—	7,129
Business solutions	83,814	—	83,814
Software licenses	7,916	—	7,916
Customer relationships and other	177,800	3,452	181,252
Other long-term assets	3,881	—	3,881
Future income taxes	13,659	12	13,671
Goodwill ¹	549,519	6,940	556,459
Long-term debt	—	(70)	(70)
Accrued integration charges and other long-term liabilities	(72,760)	—	(72,760)
	583,994	9,857	593,851
Cash acquired	616,237	224	616,461
Net assets acquired	1,200,231	10,081	1,210,312
Consideration			
Cash	1,179,156	8,449	1,187,605
Acquisition costs	21,075	612	21,687
Issuance of 136,112 Class A subordinate shares ²	—	1,020	1,020
	1,200,231	10,081	1,210,312

¹ Includes \$35,749,000 of goodwill deductible for tax purposes.

² The value of the shares issued as consideration for the business acquisition was determined using the average closing share price on the TSX over a reasonable period before and after the date the terms of the business combination were agreed to and announced.

In connection with the acquisitions completed in 2004, the Company has adopted certain plans to restructure and integrate the acquired businesses. Consequently, the Company established provisions related to leases for premises occupied by the acquired businesses, which the Company plans to vacate, in the amount of \$43,290,000, as well as costs related to the planned termination of certain employees of the acquired businesses performing functions already available through its existing structure in the amount of \$96,981,000.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

16. Investments in subsidiaries and joint ventures (continued)

2004 TRANSACTIONS (CONTINUED)

b) Dispositions

- The Company sold the assets related to the information services to the banking and investment group, one of the divisions presented in the discontinued operations (see Note 17), for cash consideration of \$47,000,000, which resulted in a gain on sale of \$11,217,000 after tax and goodwill reduction of \$20,355,000.
- The Company sold three other divisions which were classified as discontinued operations for total consideration of \$40,350,000, which is comprised of cash consideration of \$17,560,000, a balance of sale of \$6,000,000, an interest-bearing note of \$2,750,000, an assumption of liabilities of \$540,000 and \$13,500,000 of shares of Nexxlink Technologies Inc. These transactions resulted in a loss of approximately \$1,400,000.
- The Company sold its interest in a joint venture and non-significant assets for cash consideration of \$4,260,000, net of \$4,235,000 of cash disposed. These transactions resulted in a nominal gain.

c) Balance of integration charges

For AMS and Cognicase, the components of the integration charges related to business acquisitions included in accounts payable and accrued liabilities and accrued integration charges and other long-term liabilities are as follows:

	CONSOLIDATION AND CLOSURE OF FACILITIES	SEVERANCE	TOTAL
	\$	\$	\$
BALANCE, OCTOBER 1, 2003	41,029	9,580	50,609
New integration charges	43,102	96,360	139,462
Adjustments to initial provision ¹	678	(5,963)	(5,285)
Foreign currency translation adjustment	(3,028)	(6,817)	(9,845)
Paid during 2004	(12,804)	(72,910)	(85,714)
BALANCE, SEPTEMBER 30, 2004 ²	68,977	20,250	89,227

¹ Has been recorded as a reduction of goodwill.

² Of the total balance remaining, \$37,631,000 is included in accounts payable and accrued liabilities and \$51,596,000 is included in accrued integration charges and other long-term liabilities.

d) Modifications to purchase price allocation

The Company modified the purchase price allocations and made adjustments relating to certain business acquisitions resulting in a net decrease of goodwill of \$11,326,000 and a net increase of non-cash working capital items, future income taxes and cash of \$8,058,000, \$115,000 and \$3,153,000, respectively.

2003 TRANSACTIONS

a) Acquisitions

The Company made the following acquisitions:

- Underwriters Adjustment Bureau Ltd. (“UAB”)—Effective January 1, 2003, the Company acquired all the outstanding shares of UAB, a provider of claims management, underwriting and actuarial services for the property and casualty insurance industry.
- Cognicase—The Company acquired from January 13, 2003, through February 25, 2003, all outstanding shares of Cognicase. At the option of the holder, the Company offered for each share of Cognicase \$4.50 cash or 0.6311 Class A subordinate shares of the Company, or a combination thereof. Cognicase provided solutions including the implementation of e-business solutions, ASP services, re-engineering of existing applications for e-business, technology configuration management, as well as project management and business process improvement consulting services.
- Other—The Company acquired all the assets of INSpire Insurance Solutions Inc., which provides claims and policy administration outsourcing services as well as software and consulting services, and all the outstanding shares of ProjExpert Conseillers en Gestion et Informatique Inc., a consulting company specializing in the implementation of enterprise resource planning systems, on December 2, 2002, and January 1, 2003, respectively. Furthermore, the Company acquired all the outstanding shares of Cornerstone Project Management Group Inc., a provider of project management and consulting services in the government, healthcare and financial services sectors on January 30, 2003, and increased its interest in one of its joint ventures.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

2003 TRANSACTIONS (CONTINUED)

a) Acquisitions (continued)

In connection with these acquisitions, the Company has adopted certain plans to restructure and integrate the acquired businesses. Consequently, the Company established provisions related to leases for premises occupied by the acquired businesses, which the Company plans to vacate, as well as costs related to the planned termination of certain employees of the acquired businesses performing functions already available through its existing structure. The Company also planned to divest from certain activities which are not part of the Company's core business.

These restructuring and integration plans involved costs related to the planned abandonment of numerous real estate leases, located in Canada and the United States for a total amount of approximately \$49,600,000. These plans also provided for severance costs related to the termination of various groups of employees working mostly as consultants and project managers, along with finance and administration personnel located throughout Canada and the United States, of approximately \$34,700,000.

The acquisitions were accounted for using the purchase method, and the preliminary purchase price allocation is as follows:

	UAB \$	COGNICASE \$	OTHER \$	TOTAL \$
Non-cash working capital items	7,818	(113,299)	(4,910)	(110,391)
Capital assets	6,855	31,283	1,233	39,371
Internal software	1,506	6,304	—	7,810
Business solutions	—	34,285	1,614	35,899
Software licenses	—	109	—	109
Customer relationships and other	15,000	87,722	1,207	103,929
Other long-term assets	—	4,577	—	4,577
Future income taxes	(1,388)	(7,468)	(153)	(9,009)
Goodwill ¹	33,818	323,307	9,795	366,920
Pension cost	(4,500)	—	—	(4,500)
Assumption of long-term debt	(1,073)	(60,903)	(215)	(62,191)
	58,036	305,917	8,571	372,524
Cash acquired	(3,967)	23,495	5,954	25,482
Net assets acquired	54,069	329,412	14,525	398,006
Consideration				
Cash	53,000	180,154	12,891	246,045
Acquisition costs	1,069	9,512	834	11,415
Issuance of 19,850,245 Class A subordinate shares ²	—	139,746	—	139,746
Issuance of 113,154 Class A subordinate shares ²	—	—	800	800
	54,069	329,412	14,525	398,006

¹ Includes \$4,670,000 of goodwill deductible for tax purposes.

² The value of the shares issued as consideration for the business acquisition was determined using the average closing share price on the TSX over a reasonable period before and after the date the terms of the business combination were agreed to and announced.

b) Dispositions

The Company sold two subsidiaries previously owned by Cognicase for a non significant cash consideration.

c) Balance of integration charges

For Cognicase, the components of the integration charges included in accounts payable and accrued liabilities and accrued integration charges and other long-term liabilities related to the business acquisition are as follows:

	CONSOLIDATION AND CLOSURE OF FACILITIES \$	SEVERANCE \$	TOTAL \$
BALANCE, OCTOBER 1, 2002	—	—	—
New integration charges	47,422	30,404	77,826
Paid during 2003	(6,393)	(20,824)	(27,217)
BALANCE, SEPTEMBER 30, 2003 ¹	41,029	9,580	50,609

¹ Of the total balance remaining, \$19,499,000 is included in accounts payable and accrued liabilities and \$31,110,000 is included in accrued integration charges and other long-term liabilities.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

16. Investments in subsidiaries and joint ventures (continued)

2003 TRANSACTIONS (CONTINUED)

d) Modifications to purchase price allocations

The Company modified the purchase price allocations and made adjustments relating to certain business acquisitions resulting in a net decrease of goodwill, future income tax liabilities, income tax liabilities and accounts payable and accrued liabilities of \$3,248,000, \$143,000, \$659,000 and \$2,028,000, respectively, a net increase of finite-life intangibles and other long-term assets of \$1,478,000 and a cash consideration paid of \$1,060,000.

17. Discontinued operations and assets held for sale

In 2005 and 2004, the Company formally adopted plans to divest of certain activities acquired from previous transactions which were not related to its core business and which included six divisions (see Note 16).

2005 TRANSACTIONS

In 2005, the Company formally adopted a plan to divest from certain activities which were not in line with the Company's strategy. On March 8, 2005, the Company disposed of the principal assets of Keyfacts Entreprises Canada Inc. ("Keyfacts"), a wholly-owned subsidiary of the Company. Keyfacts is a provider of information search and retrieval services for investigative purposes.

Also, on March 10, 2005, the Company disposed of its US Services to Credit Unions business unit and its CyberSuite product line. US Services to Credit Unions is a provider of core processing for credit unions in the United States.

2004 TRANSACTIONS

In 2004, the Company disposed of four divisions. One of the divisions' activities consists mainly of sales of integrated management system software package suites ("Enterprise Resource Planning or ERP") and related services targeted to municipalities, healthcare bodies, as well as manufacturing and distribution companies. The second division's activities consist mainly of providing installation and technical services for mid-range and micro computer systems and automated teller machines. The third division's activities consist mainly of supplying high-quality PC-based power engineering software applications and the last division's activities consist mainly of providing information services to banking and investment groups.

The following table presents summarized financial information related to discontinued operations:

	2005	2004	2003
	\$	\$	\$
Revenue	17,495	77,930	125,170
Operating expenses	12,585	56,955	113,783
Amortization	610	3,708	6,591
Earnings before income taxes	4,300	17,267	4,796
Income taxes	7,510	8,612	1,713
Net (loss) gain from discontinued operations	(3,210)	8,655	3,083
Net cash provided by operating activities	759	2,924	7,348
Net cash provided by (used in) investing activities	-	1,174	(585)
Net cash used in financing activities	-	(30)	(589)
Net cash and cash equivalents provided by discontinued operations	759	4,068	6,174

Discontinued operations were included in the BPS segment in 2005 and in both BPS and IT segments in 2004. As at September 30, 2005, operating expenses from discontinued operations were reduced by pre-tax gains from disposal of \$5,012,000 (\$17,267,000 in 2004). Also, the income tax expense does not bear a normal relation to earnings before income taxes since the sale included goodwill of \$16,152,000 which had no tax basis (\$23,658,000 in 2004).

18. Joint ventures: supplementary information

The Company's proportionate share of its joint venture investees' operations included in the consolidated financial statements is as follows:

	2005 \$	2004 \$	
BALANCE SHEETS			
Current assets	53,559	67,122	
Non-current assets	19,429	46,158	
Current liabilities	29,069	33,639	
Non-current liabilities	7,226	47,774	
	2005 \$	2004 \$	2003 \$
STATEMENTS OF EARNINGS			
Revenue	86,916	138,570	189,693
Expenses	78,011	129,923	182,268
Net earnings	8,905	8,647	7,425
STATEMENTS OF CASH FLOWS			
Cash provided by (used in):			
Operating activities	28,634	5,247	5,673
Investing activities	(23,205)	(17,008)	(49,169)
Financing activities	8,147	599	46,031

FINANCING LEASE

On November 1, 2002, one of the Company's joint ventures, acting as the lessor, entered into a 50-month lease agreement for the information system and technology assets, as part of an existing outsourcing contract with one of its major clients. This agreement was accounted for as a direct financing lease. As at September 30, 2005, an amount of \$12,434,000, representing the current portion, is included in prepaid expenses and other current assets, and the remaining \$1,788,000 is included in finite-life intangibles and other long-term assets. The effective interest rate of the lease agreement is 5.02% and the net investment is \$14,222,000 as of September 30, 2005.

19. Supplementary cash flow information

a) Net change in non-cash working capital items is as follows for the years ended September 30:

	2005 \$	2004 \$	2003 \$
Accounts receivable	62,687	41,151	(27,060)
Work in progress	(1,150)	(25,211)	(1,288)
Prepaid expenses and other current assets	13,921	1,238	(4,682)
Accounts payable and accrued liabilities	(89,503)	(96,537)	(83,190)
Accrued compensation	(3,601)	(39,143)	21,969
Deferred revenue	13,519	16,892	(20,426)
Income taxes	(6,449)	(109,766)	5,888
	(10,576)	(211,376)	(108,789)

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

19. Supplementary cash flow information (continued)

b) Non-cash operating, investing and financing activities related to continuing operations are as follows for the years ended September 30:

	2005 \$	2004 \$	2003 \$
Operating activities			
Accounts payable and accrued liabilities	7,185	—	—
Accrued integration charges and other long-term liabilities	—	7,583	1,502
	7,185	7,583	1,502
Investing activities			
Business acquisitions (NOTE 16)	—	(1,020)	(140,546)
Proceeds from sale of assets and businesses (NOTE 16)	—	13,500	—
Purchase of capital assets	—	(1,393)	—
Contract costs	—	(7,583)	(1,502)
Decrease (increase) in finite-life intangibles and other long-term assets (NOTE 16)	(11,050)	(13,500)	—
	(11,050)	(9,996)	(142,048)
Financing activities			
Increase in obligations under capital leases	11,050	1,393	—
Issuance of shares (NOTE 9)	—	1,020	140,546
Repurchase of Class A subordinate shares	(7,185)	—	—
	3,865	2,413	140,546

c) Interest paid and income taxes paid are as follows for the years ended September 30:

	2005 \$	2004 \$	2003 \$
Interest paid	17,965	21,477	9,293
Income taxes paid	66,534	143,405	66,526

20. Segmented information

The Company has two lines of business (“LOB”): IT services and BPS.

The focus of these LOBs is as follows:

- The IT services LOB provides a full-range of IT services, including systems integration, consulting and outsourcing, to clients worldwide. The professionals and facilities in India and Canada also serve the United States and foreign-based clients as an integral part of their off-shore and nearshore delivery model.
- The BPS LOB provides a full spectrum of business process services to its client base. Its services include business processing for the financial services sector, as well as other services such as payroll and document management services.

The following presents information on the Company’s operations based on its management structure:

	IT SERVICES \$	BPS \$	CORPORATE \$	2005 TOTAL \$
Revenue	3,239,656	446,330	—	3,685,986
Earnings (loss) before interest, other income, gain on sale of investment in an entity subject to significant influence, entity subject to significant influence, income taxes and discontinued operations ¹	360,379	70,401	(84,635)	346,145
Total assets	2,950,840	664,172	371,647	3,986,659

¹ Amortization expense included in IT services, BPS and Corporate is \$191,002,000, \$30,921,000 and \$9,010,000, respectively, as at September 30, 2005.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

	IT SERVICES	BPS	CORPORATE	2004 TOTAL
	\$	\$ RESTATED	\$	\$
Revenue	2,721,306	428,764	—	3,150,070
Earnings (loss) before interest, other income, entity subject to significant influence, income taxes and discontinued operations ¹	326,043	72,394	(88,354)	310,083
Total assets	3,304,918	687,680	323,917	4,316,515

¹ Amortization expense included in IT services, BPS and Corporate is \$168,931,000, \$15,904,000 and \$7,490,000, respectively, for the year ended September 30, 2004.

	IT SERVICES	BPS	CORPORATE	2003 TOTAL
	\$	\$ RESTATED	\$	\$
Revenue	2,182,568	407,337	—	2,589,905
Earnings (loss) before interest, other income, entity subject to significant influence, income taxes and discontinued operations ¹	289,409	69,853	(70,901)	288,361
Total assets	2,263,013	665,564	208,106	3,136,683

¹ Amortization expense included in IT services, BPS and Corporate is \$129,201,000, \$13,934,000 and \$3,751,000, respectively, for the year ended September 30, 2003.

	2005 \$	2004 \$ RESTATED
Capital assets		
IT services	71,170	98,580
BPS	15,118	19,236
Corporate	30,100	25,825
	116,388	143,641

The accounting policies of each segment are the same as those described in the summary of significant accounting policies (see Note 2). The figures are presented net of intersegment sales and transfers, which are priced as if the sales or transfers were to third parties.

Geographic information

The following table sets out certain geographic market information based on client's location.

	2005 \$	2004 \$ RESTATED	2003 \$ RESTATED
Revenue			
Canada	2,235,465	2,161,818	2,024,901
United States	1,171,072	797,411	432,256
Europe and Asia Pacific	279,449	190,841	132,748
	3,685,986	3,150,070	2,589,905

Capital assets and goodwill are not disclosed by geographic areas as this financial information is not used to produce the general-purpose financial statements. All the Company's business units share the capital asset infrastructure. Providing geographic information for capital assets and goodwill is therefore impracticable.

21. Related party transactions

In the normal course of business, the Company is party to contracts with certain subsidiaries and affiliated companies of BCE (a shareholder), pursuant to which the Company is its preferred IT supplier. BCE exercises significant influence over the Company's operating, financing and investing activities through its 29.75% (2004–28.86%) ownership interest and through the business volume originating from BCE, together with its subsidiaries and affiliates.

Transactions and resulting balances, which were measured at commercial rate (exchange amount), are presented below:

	2005 \$	2004 \$	2003 \$
Revenue	526,935	516,968	500,068
Purchase of services	121,184	99,881	91,471
Accounts receivable	21,632	16,730	21,659
Work in progress	14,209	5,894	1,123
Contract costs	14,103	17,916	21,373
Accounts payable and accrued liabilities	1,018	8,343	5,161
Deferred revenue	1,978	1,249	1,330

During the year, the Company disposed of its investment in Nexxlink Technologies Inc. (see Note 16). This investment was sold to BCE pursuant to a public tender offering and accounted for at the exchange amount.

In the normal course of business, the Company is also party to contracts with Innovapost, a joint venture, pursuant to which the Company is its preferred IT supplier. The Company exercises significant influence over Innovapost's operating, financing and investing activities through its 49% ownership interest.

Transactions and resulting balances, which were measured at commercial rate (exchange amount), are presented below:

	2005 \$	2004 \$	2003 \$
Revenue	102,699	94,607	62,653
Accounts receivable	4,112	3,622	5,086
Work in progress	1,290	1,988	361
Prepaid expenses and other current assets	2,019	1,815	—
Contract costs	17,301	19,696	21,989
Accounts payable and accrued liabilities	1,254	1,113	227
Deferred revenue	—	946	2,125
Other long-term liabilities	—	—	4,463

During the year, the Company incurred a general and administrative expense in the amount of \$2,505,000 with a Company owned by one of its directors. The transaction was incurred in the normal course of operations and measured at the commercial rate (exchange amount).

22. Employee future benefits

Generally, the Company does not offer pension plan or postretirement benefits to its employees with the exception of the following:

UAB maintained a post-employment benefits plan to cover the former UAB retired employees. The post-employment benefits liability totaled \$6,584,000 and \$7,206,000, as at September 30, 2005 and 2004. There was no related expense for the years ended September 30, 2005 and 2004, and approximately \$638,000 for the year ended September 30, 2003, included in cost of services, selling and administrative.

With the acquisition of AMS, the Company assumed defined contribution pension plans. Total pension plan expense for the year ended September 30, 2005, was approximately \$5,373,000 and \$2,059,000 in 2004.

The Company maintains a 401(k) defined contribution plan covering substantially all U.S. employees. The Company matches employee's contributions to a maximum of \$1,000 per year. For the years ended September 30, 2005, 2004 and 2003, the amounts of the Company's contributions were \$5,634,000, \$2,784,000 and \$1,992,000, respectively.

23. Commitments and contingencies

A) COMMITMENTS

At September 30, 2005, the Company is committed under the terms of operating leases with various expiration dates, primarily for rental of premises and computer equipment used in outsourcing contracts, in the aggregate amount of approximately \$1,188,331,000. Minimum lease payments due in the next five years are as follows:

	\$
2006	193,523
2007	155,421
2008	117,812
2009	95,561
2010	88,933

The Company concluded six long-term service agreements representing a total commitment of \$106,158,000. Minimum payments under these agreements due in each of the next five years are as follows:

	\$
2006	38,081
2007	50,134
2008	10,109
2009	6,257
2010	1,577

B) CONTINGENCIES

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a material adverse impact on the Company's financial position, results of operations, or the ability to carry on any of its business activities.

24. Guarantees

SALE OF ASSETS AND BUSINESS DIVESTITURES

In the sale of assets and business divestitures, the Company may be required to pay counterparties for costs and losses incurred as the result of breaches in representations and warranties, intellectual property right infringement and litigation against counterparties. While some of the agreements specify a maximum potential exposure of approximately \$80,500,000 in total, many do not specify a maximum amount or limited period. It is impossible to reasonably estimate the maximum amount that may have to be paid under such guarantees. The amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. No amount has been accrued in the consolidated balance sheets relating to this type of indemnification as at September 30, 2005. The Company does not expect to incur any potential payment in connection with these guarantees which will have a materially adverse effect on its consolidated financial statements.

U.S. GOVERNMENT CONTRACTS

The Company is engaged to provide services under contracts with the U.S. Government. The contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether the Company's operations are being conducted in accordance with these requirements. Generally, the government has the right to change the scope of, or terminate, these projects at its convenience. The termination or a reduction in the scope of a major government project could have a material adverse effect on our results of operations and financial condition.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

24. Guarantees (continued)

OTHER TRANSACTIONS

In the normal course of business, the Company may provide certain clients, principally governmental entities, with financial performance guarantees, which are generally backed by surety bonds. In general, the Company would only be liable for the amount of these guarantees in the event of default in the performance of its obligations, the probability of which is remote in management's opinion. As at September 30, 2005, the Company has US\$47,800,000 and \$2,900,000 outstanding surety bonds relating to these performance guarantees. The Company believes it is in compliance with its performance obligations under all service contracts for which there is a financial performance guarantee, and the ultimate liability, if any, incurred in connection with these guarantees would not have a material adverse effect on the Company's consolidated results of operations or financial position.

The Company is the guarantor of a US\$3,000,000 letter of credit issued by a client. In the event that the client defaults on payments owed to a supplier, and the supplier draws upon the letter of credit for payment, the Company may be called upon to reimburse the amounts drawn up to a maximum of US\$3,000,000. This guarantee is in effect until April 2006. As at September 30, 2005, no amount has been drawn upon the letter of credit and no amount has been accrued in the consolidated balance sheets relating to this guarantee.

25. Financial instruments

The Company periodically uses various financial instruments to manage its exposure to foreign currency risk, but does not hold or issue such financial instruments for trading purposes.

FAIR VALUE

At September 30, 2005 and 2004, the estimated fair values of cash and cash equivalents, accounts receivable, work in progress and accounts payable and accrued liabilities approximate their respective carrying values.

The estimated fair values of long-term debt, with exception of Senior US unsecured notes, and obligations under capital leases are not significantly different from their respective carrying values at September 30, 2005 and 2004.

The fair value of Senior US unsecured notes, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, is \$215,982,000.

INTEREST RATE RISK

The Company is exposed to interest rate risk on a portion of its long-term debt and does not currently hold any financial instruments that mitigate this risk. Management does not believe that this risk is significant since no amount had been drawn upon the credit facilities.

CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash equivalents and accounts receivable. The cash equivalents consist mainly of short-term money market deposits. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote. The Company has accounts receivable from clients engaged in various industries including governmental agencies, finance, telecommunications, manufacturing and utilities, and are not concentrated in any specific geographic area. These specific industries may be affected by economic factors which may impact accounts receivable. Management does not believe that any single industry or geographic region represents significant credit risk. Credit risk concentration with respect to trade receivables is limited due to the Company's large client base. Furthermore, as described in Note 21, the Company generates a significant portion of its revenue from a shareholder's subsidiaries and affiliates.

CURRENCY RISK

The Company operates internationally and is exposed to risks from changes in foreign currency rates. The Company mitigates this risk principally through foreign debt and forward contracts. During 2004, the Company designated its US\$192,000,000 Senior US unsecured notes as the hedging instrument for a part of the Company's net investment in self-sustaining foreign subsidiaries for which foreign currency translation gains or losses have been recorded under foreign currency translation adjustment. Realized or unrealized gains or losses on financial instruments have also been recorded under the same caption, as they qualify for hedge accounting. There were no outstanding forward contracts as at September 30, 2005 and 2004 (US\$15,000,000 as at September 30, 2003). Realized and unrealized foreign exchange gains and losses in relation to forward contracts for each of the years in the three-year period ended September 30, 2005, were not significant.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

The consolidated balance sheet includes significant foreign financial assets as cash and accounts receivable as well as significant foreign financial liabilities as accounts payables and accrued liabilities of \$116,238,000, \$173,686,000 and \$162,167,000, respectively, as of September 30, 2005 (\$122,186,000, \$217,167,000 and \$194,373,000, respectively, as of September 30, 2004).

26. Reconciliation of results reported in accordance with Canadian GAAP to US GAAP

The material differences between Canadian and US GAAP affecting the Company's consolidated financial statements are detailed as follows:
Reconciliation of net earnings:

	2005 \$	2004 \$	2003 \$
Net earnings—Canadian GAAP	216,488	194,041	169,198
Adjustments for:			
Stock-based compensation ⁽ⁱ⁾	20,554	25,559	8,168
Warrants ⁽ⁱⁱ⁾	1,405	1,405	1,405
Unearned compensation ⁽ⁱⁱⁱ⁾	-	(794)	(1,450)
Other	(665)	(1,999)	(4,028)
Net earnings—US GAAP	237,782	218,212	173,293
Basic and diluted EPS—US GAAP	0.54	0.52	0.44
Reconciliation of shareholders' equity:			
Shareholders' equity—Canadian GAAP	2,494,690	2,461,862	1,979,403
Adjustments for:			
Stock-based compensation ⁽ⁱ⁾	58,411	37,857	12,298
Warrants ⁽ⁱⁱ⁾	(6,480)	(7,885)	(9,290)
Unearned compensation ⁽ⁱⁱⁱ⁾	(3,694)	(3,694)	(3,694)
Integration costs ^(iv)	(6,606)	(6,606)	(6,606)
Goodwill ^(v)	28,078	28,078	28,078
Adjustment for change in accounting policy ^(vi)	9,715	9,715	9,715
Other	(9,463)	(8,798)	(6,799)
Shareholders' equity—US GAAP	2,564,651	2,510,529	2,003,105

(i) Stock-based compensation

Under Canadian GAAP, stock-based employee compensation was accounted for using the fair value-based method beginning October 1, 2004, as required by CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". Under US GAAP, the Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), "Share-Based Payment", does not require adoption of this standard until fiscal years beginning on or after June 15, 2005. Rather, SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure", requires pro-forma disclosure of net earnings, and basic and diluted earnings per share, assuming that the fair value-based method of accounting had been applied from the date that SFAS No. 123, "Accounting for Stock-Based Compensation", was adopted. For the year ended September 30, 2005, pro-forma net earnings and pro-forma basic and diluted earnings per share under US GAAP are \$217,228,000 and \$0.49 (\$192,653,000 and \$0.46 and \$165,125,000 and \$0.42, respectively, for the years ended September 30, 2004 and 2003).

(ii) Warrants

Under Canadian GAAP, the fair value of warrants issued in connection with long-term outsourcing contracts is recorded as contract costs and amortized on a straight-line basis over the initial contract term. Under US GAAP, the fair value of equity instruments issued was subtracted from the initial proceeds received in determining revenue. The 2005, 2004 and 2003 adjustments reflect the reversal of contract cost amortization, net of income taxes, which is included as a reduction to Canadian GAAP consolidated net earnings.

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

26. Reconciliation of results reported in accordance with Canadian GAAP to US GAAP (continued)

(iii) Unearned compensation

Under Canadian GAAP, prior to July 1, 2001, unvested stock options granted as a result of a business combination were not recorded. The adjustment reflects the intrinsic value of unvested stock options (see (v) below) that would have been recorded as a separate component of shareholders' equity for US GAAP purposes. This unearned compensation was amortized over approximately three years, being the estimated remaining future vesting service period.

(iv) Integration costs

Under Canadian GAAP, prior to January 1, 2001, certain restructuring costs relating to the purchaser may be recognized in the purchase price allocation when accounting for business combinations, subject to certain conditions. Under US GAAP, only costs relating directly to the acquired business may be considered in the purchase price allocation. The adjustment represents the charge to consolidated net earnings, net of goodwill amortization in 2001, recorded for Canadian GAAP purposes and net of income taxes.

(v) Goodwill

The goodwill adjustment to shareholders' equity results principally from the difference in the value assigned to stock options issued to IMRglobal employees. Under Canadian GAAP, the fair value of outstanding vested stock options is recorded as part of the purchase price allocation whereas under US GAAP, the fair value of both vested and unvested outstanding stock options granted as a result of the business acquisition is recorded. See (iii) above for a further discussion relating to this item.

(vi) Income taxes and adjustment for change in accounting policy

On October 1, 1999, the Company adopted the recommendations of CICA Handbook Section 3465, "Income taxes". The recommendations of Section 3465 are similar to the provisions of SFAS No. 109, "Accounting for Income Taxes", issued by the Financial Accounting Standards Board ("FASB"). Upon the implementation of Section 3465, the Company recorded an adjustment to reflect the difference between the assigned value and the tax basis of assets acquired in a business combination, which resulted in future income tax liabilities; the Company recorded this amount through a reduction of retained earnings as part of the cumulative adjustment. Under US GAAP, this amount would have been reflected as additional goodwill.

(vii) Comprehensive income

Cumulative other comprehensive income is comprised solely of foreign currency translation adjustments which result from the process of translating the financial statements of foreign subsidiaries.

The following table represents comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income":

	2005 \$	2004 \$	2003 \$
Net earnings—US GAAP	237,782	218,212	173,293
Other comprehensive income:			
Foreign currency translation adjustment	(92,124)	(69,157)	(123,768)
Comprehensive income	145,658	149,055	49,525

Notes to the consolidated financial statements
Years ended September 30, 2005, 2004 and 2003
(tabular amounts only are in thousands of Canadian dollars, except share data)

(viii) Proportionate consolidation

The proportionate consolidation method is used to account for interests in joint ventures. Under US GAAP, entities in which the Company owns a majority of the share capital would be fully consolidated and those which are less than majority-owned, but over which the Company exercises significant influence, would be accounted for using the equity method. This would result in reclassifications in the consolidated balance sheets and statements of earnings as at September 30, 2005 and 2004, and for each of the years in the three-year period ended September 30, 2005. However, the differences in the case of majority-owned joint ventures were not considered material and have consequently not been presented (see Note 18). In accordance with practices prescribed by the U.S. Securities and Exchange Commission ("SEC"), the Company has elected, for the purpose of this reconciliation, to account for interests in joint ventures using the proportionate consolidation method.

(ix) Share issue costs

As permitted under Canadian GAAP, the Company's share issue costs are charged to retained earnings. For US GAAP purposes, share issue costs are recorded as a reduction of the proceeds raised from the issuance of capital stock.

(x) Recent and future accounting changes

In May 2005, the FASB issued Statement 154, "Accounting Changes and Error Corrections", which changes the requirements for the accounting and reporting of a change in accounting principles and requires that changes in accounting principle be retrospectively applied. Statement 154 applies to all voluntary changes in accounting principles as well as to changes required by an accounting pronouncement that does not include specific transition provisions. The adoption of SFAS No. 154 is required for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In December 2004, the FASB issued No. 123R, "Share-Based Payment", which requires Companies to recognize the fair value of share-based payment arrangements in their financial statements. While Canadian companies have been required by Handbook Section 3870, "Accounting for Stock-Based Compensation and Other Stock-Based Payments", to recognize the fair value of stock-based compensation in their income statements since January 1, 2004, the SFAS 123R fair value model is different from that of Section 3870. The adoption of SFAS 123R is required beginning on or after June 15, 2005. The Company is evaluating the impact of the adoption of this new section on the consolidated financial statements.

27. Subsequent event

On October 26, 2005, the Company reached an agreement to sell a large portion of its electronic switching services for proceeds of \$28,000,000, subject to adjustment. The transaction will close when all required approvals are obtained by the Company.