Financial Models Company Inc.

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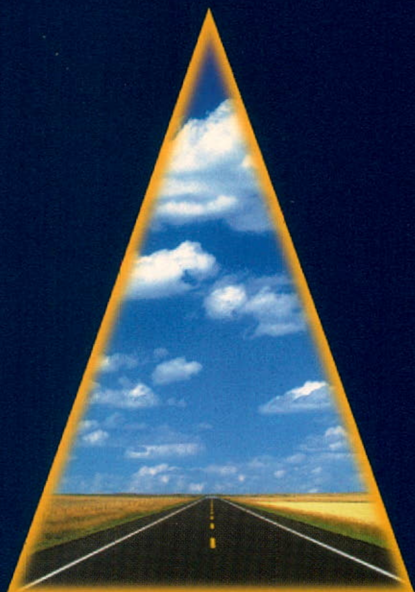

Straight • Forward • Solutions™

FMC™
FINANCIAL MODELS

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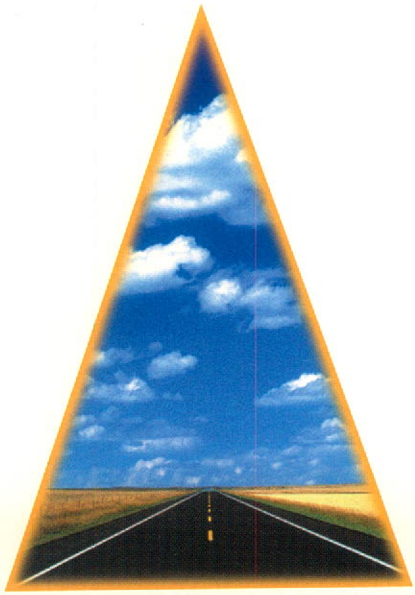


FMC™

FINANCIAL MODELS

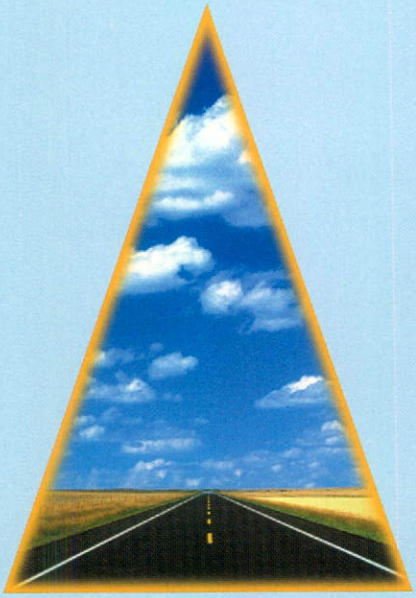
FMC'S COMMITMENT

TO VALUE IS

RECOGNIZED AND

APPRECIATED BY

ITS CUSTOMERS.



FMC™
FINANCIAL MODELS

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THE ESSENCE OF COMMITMENT

FMC™
FINANCIAL MODELS

During the past quarter century, FMC has become an integral part of the global investment infrastructure, providing a comprehensive suite of investment management software products, securities data and professional services to investment management institutions around the world. More than five hundred clients in Canada, the United States, Europe and Australia, including many of the world's leading financial institutions, use FMC software to manage over $3 trillion in assets.

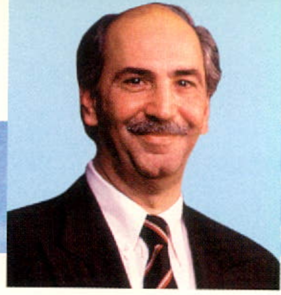
FMC's success is built on a commitment to some key principles: a commitment to innovation, a commitment to value, and a commitment to client service.

FMC's commitment to innovation is at the heart of many industry advances. These include: an electronic portfolio management system; an integrated performance measurement system; an integrated trade order management system; and a global electronic trade network linking brokers, investment managers and custodians. The commitment to provide innovative products and services to the investment management industry resulted in the introduction last year of FMCSuite™, a web-based platform supporting all investment management processes.

Clients look to FMC to provide straight forward solutions to increase efficiencies, reduce costs and improve client service. Because FMC's sole focus is on the investment industry, it has built an unparalleled level of industry expertise. A frequent participant in industry steering committees and the host of numerous seminars, FMC has assisted the industry to set effective standards for best practices in process and data management.

From its inception, FMC has worked closely with clients not only to develop investment management solutions but also to support them in maximizing the benefits of FMC's technology. Feedback from regularly scheduled customer satisfaction surveys allows FMC to measure its service performance and react to customer needs.

FMC's commitment to innovation, value and service forms the foundation of FMC's success.



Stamos D. Katotakis
President and Chief Executive Officer

William R. Waters
Chairman of the Board

THE ESSENCE OF SHAREHOLDER VALUE

We are pleased to report on FMC's results for the fiscal year ended February 28, 2003. FMC maintained revenues for the fiscal year at approximately the same levels as fiscal 2002 and improved profitability. Total revenue was $76.3 million, basically unchanged from the $76.2 million realized in fiscal 2002 while EBITDA, as defined in the Management's Discussion and Analysis, increased to $5.2 million from $1.1 million and net loss decreased to $0.5 million from $2.0 million.

FMC's recurring revenue, consisting of application services revenue and licence maintenance revenue, increased 14% and now accounts for approximately 73% of FMC's total revenue. This increase in recurring revenue, largely the result of expanded usage of our ASP services, reflects the growing preference of clients for outsourced solutions. FMC has provided IT outsourcing services for its products since it started in business and has an excellent record in providing reliable services that are highly scaleable.

The global economic downturn that started in the first quarter of fiscal 2002 persisted through fiscal 2003. The downturn affected FMC's clients, resulting in reductions in capital spending. This is reflected in FMC's results, which registered a decline in licence sales and associated professional services revenue across most geographic areas in which FMC operates. This decline offset the growth in FMC's recurring revenue.

FMC's measures to control and, where possible, reduce costs of operations resulted in improvements in reported earnings from the levels of the prior year. EBITDA improved to $5.2 million from $1.1 million, net loss narrowed to $0.5 million from $2.0 million and net loss per share improved to $0.04 from $0.17.

In addition to the improvements in profitability during the year, FMC improved cash flow from operations and reduced receivables. This, among other things, has resulted in a $5.8 million increase in cash to $23.2 million at February 28, 2003. FMC continues to have a strong balance sheet with $25.4 million of working capital and no debt.

While we are pleased with the improvements in profitability and cash flow, we maintain a cautious stance for fiscal 2004 considering that the economic conditions remain uncertain. FMC is positioned such that it can benefit from an upturn in economic activity.

Throughout the past year FMC has continued the development of its systems, releasing new versions of practically every FMC software system. Of particular note is the release of FMCRecon™ 5.5 with expanded workflow capabilities, FMCSylvan™ 5.2 with a market leading fixed income attribution module, and FMCPages™ 5.6 with new and powerful presentation capabilities for documents, web or PowerPoint®. FMC further developed its new web-based systems, deploying a more advanced version of FMCSuite, the world's first integrated asset management suite built specifically for straight through processing ("STP").

The first components of FMCSuite, launched last year, are FMCModel™ and FMCWealthNet™. FMC is committed to providing solutions that are highly scaleable, available over the Internet with "zero-footprint" deployment and that provide STP "out of the box".

FMC remains dedicated to its vision of developing and delivering innovative, world-class solutions and services to the investment industry. One of the critical requirements in fulfilling this vision is a clear understanding of clients' business and needs. By paying attention to the emerging requirements of clients, FMC is in a position to offer solutions and services that continue to build long-term client relationships into true partnerships.

In 2003, FMC expanded FMCAcademy™, a facility to offer courses to FMC users remotely over the Internet. Courses are available for new clients requiring an introduction to FMC's products and for experienced users wishing to learn more about advanced topics. FMCAcademy is based on the curriculum and course materials used in FMC's successful instructor-led courses, ensuring that clients receive the best possible instruction.

FMC continues to explore strategic partnerships and alliances to further strengthen its products and expand the functionality available to its clients. FMCSuite incorporates well-established technologies in delivering FMC's next generation STP solution including Cognos® (Powerplay) and NYFIX® (FIX engine). In addition, FMC announced an extension of its partnership with The Bank of New York enabling BNY to use FMC technologies in offering a complete outsourcing solution to investment managers. A new partnership with Dominion Bond Rating Service Limited has enabled FMC's data division, SVC, to offer DBRSRatingsNow™, an innovative new real-time bond ratings service.

FMC has always worked effectively with clients in supporting and augmenting their use of investment management systems. FMC's professional services organization has helped clients implement and integrate dynamic solutions for STP that produce significant operating efficiencies, supporting clients' requirements for "doing more with less".

The challenges of the past year have been met through the dedication and expertise of FMC's employees worldwide. FMC extends its thanks to them. It is through their passion for excellence and their dedication to fulfilling client needs and expectations that FMC remains at the forefront of providing innovative solutions to the rapidly changing needs of the global investment marketplace.

We are encouraged by FMC's performance over the last year and believe that FMC is well positioned to navigate through the economic uncertainties. The year ahead may well present us with a continuation of the environmental challenges of the past two years.

FMC remains focused on its mission – to create wealth for all its stakeholders by delivering innovative solutions to the investment industry. Our employees and our exciting products combine to produce superb solutions for our clients. We feel that our confidence in FMC's future is fully justified.

Stamos D. Katotakis
President and
Chief Executive Officer

William R. Waters
Chairman of the Board

THE ESSENCE OF INNOVATION

A strong commitment to research and development and extensive industry experience allow FMC to anticipate market requirements and meet evolving market needs. Over the past year, FMC introduced many advanced capabilities in new versions of all products.

Sophisticated fixed income attribution functionality was added to FMCSylvan, FMC's market-leading performance and attribution software. With fixed income investments playing a more prominent role in many portfolios today, market demand for fixed income performance analysis tools increased dramatically. FMC anticipated this demand early and was first on the market with fixed income attribution (FIA) capability. Introduced as a module of FMCSylvan, FMC's FIA has garnered widespread praise and acceptance by industry practitioners. Using FMCSylvan FIA, investment managers can gain a clear insight into the specific contributors to fixed income performance.

FMC introduced exciting new functionality to FMCPages, FMC's acclaimed client statement generation system. Now, in addition to generating customized, fully branded client statements for hard copy, Adobe® PDF or web presentation, FMCPages can automatically generate slide presentations. The FMCPowerPages™ module provides asset managers with the means to create detailed client-specific presentations in minutes, facilitating improved client understanding and client retention. There is nothing like FMCPowerPages to bring clarity to a face-to-face meeting with a client.

Compliance with client guidelines, investment objectives and restrictions is vital to the investment management industry. During fiscal 2003, FMC introduced an upgraded version of FMCModel with significant improvements to compliance functionality. FMCModel is a decision support system that performs portfolio modeling and rebalancing, trade block order compilation and pre-trade compliance. Investment managers use FMCModel to ensure that investment policies and client mandates are followed before trades are executed. With FMCModel, managers can be sure that compliance tests are met.

By staying abreast of industry trends, FMC is able to anticipate market requirements and produce innovative products and services that meet the changing needs of the market.

FMC offers a complete range of products and services to increase the efficiency and effectiveness of every aspect of the investment management process. FMC's sole focus on the investment management industry enables it to recognize emerging industry trends and respond quickly with products and services that drive significant value.

FMC™ FINANCIAL MODELS

FMCModel™

A portfolio modeling system that allows investment managers to perform asset allocation, rebalance portfolios, undertake scenario analysis and check compliance across multiple portfolios.

FMCTrade™

A trade order management system that automates the entire trade order process. FMCTrade's customized blotter, sophisticated compliance rules and FIX connectivity to order execution networks provide efficient trade order management.

FMCNet™

A global trade network linking investment managers, broker/dealers, clearing agencies, custodians and interested parties. FMCNet's built-in virtual trade matching and delivery instruction database facilitate straight through processing diminishing risk and costs.

FMCPacer™

A multi-currency portfolio management system designed to manage securities, transactions, positions, cash, income, corporate actions and all record keeping for investment management. FMCPacer™ offers a comprehensive library of industry standard computations and has extensive reporting for valuations, capital gains, transactions and other specialized analytical and accounting functions.

FMCRecon™

Automatically reconciles transactions, holdings and cash from multiple sources. FMCRecon streamlines reconciliation by identifying exceptions and providing effective workflow tools to resolve issues faster, thereby reducing operational risk.

FMCGenvest™

FMCGenvest is a comprehensive general ledger system designed to handle the reporting requirements of investment portfolios including pension funds, mutual funds, unit trusts and insurance portfolios.

FMCSylvan™

A multi-currency performance measurement and attribution system that includes fixed income and security level attribution, customized benchmarking and composite management. FMCSylvan provides full support for industry mandated (AIMR® and GIPS®) performance-reporting standards.

FMCPages™

A client communication system that generates unique individual client statements and slide presentations for print, electronic or face-to-face presentations. By using FMCPages, clients enhance customer service while reducing administrative costs.

FMCWealthNet™

A comprehensive web portal that enables interactive advisor/investor reporting and communication. FMCWealthNet is a web-based application that helps investment managers improve client service and reduce costs.

SVC™ SECURITIES VALUATION

SVC consolidates data from leading global suppliers to provide a single source solution for investment management data. Timely accurate pricing, corporate actions, dividends, interest, foreign exchange rates and securities set-up data is available for virtually all global financial instruments.

THE ESSENCE OF VALUE

Today's market conditions have placed a new emphasis on driving value from IT investments. FMC's leading products and services help clients meet their cost control and cost reduction objectives by automating manual processes, mitigating operational risks, and increasing rates of Straight Through Processing (STP). In this way, FMC is well positioned to meet the value driven objectives of today's market.

The Tower Group, an authoritative industry consulting group, noted, "Automated reconciliation of account balances is one of the easiest straight through processing (STP) projects to calculate a positive return on investment (ROI). The business case for robust reconciliation systems could be achieved on reducing headcount and opportunity costs of operations personnel alone."

"We were looking for a reconciliation system that was in line with our straight through processing methodology and we reviewed a number of vendors. FMCRecon provided all the functionality, ..."

Peter Merlino, Director Administration
ABN AMRO Asset Management Australia
Sydney, Australia

"FMC's software has been well-received in our company... In addition, with FMCPacer we get more than just a basic accounting engine. It's also a one-stop environment for managing pricing data and corporate action updates."

Dave Mazza, Director of Distribution Platforms
Summit Partners
Cincinnati, Ohio, USA

"FMC products comprise a front and middle office solution that will enable us to support the performance and level of service our customers expect."

Simon Hazlitt, Operations Director
Majedie Asset Management
London, UK

"FMC's offering was unique, as it provided us with a localized system, ... while being available on a remote basis; this meant that our time to market was very quick, enabling us to achieve the tight transfer deadlines we needed."

Philip Dowman, Head of Custodian Services
ANZ Custodian Services
Sydney, Australia

FMC's automatic reconciliation system, FMCRecon, dramatically reduces the time spent matching data positions and provides users with workflow process tools to manage exception processing. One of the most widely used reconciliation systems, FMCRecon adds real value to the bottom line.

FMC's Securities Valuation (SVC) division provides another example of FMC's value-driven solutions. Most investment managers require data originating from a number of different sources, including domestic and international equity markets, fixed income markets, derivative markets and fund data. Managing inputs from a number of vendors, supplied in different formats and file types, can be costly and inefficient.

SVC's service model is built on consolidating data provided by leading global sources to supply customized data feeds for clients. This client-focused solution streamlines data management by providing data from many vendors in a uniform client-specified format. By eliminating the need for clients to deal with multiple vendors and multiple formats, SVC reduces the complexity of data management, diminishing errors, time lags and costly redundancies.

By streamlining processes and reducing complexity, FMC products produce tangible reductions in operating costs and process risks. FMCNet™ is a secure, real-time transaction network that links brokers, managers, custodians and interested parties for efficient straight through processing. FMCNet's newest release expected in fiscal 2004 will be available as a web-based service and will incorporate a virtual matching utility and advanced trade enrichment functionality. FMCNet provides the means to paperless trade communication, significantly enhancing operational efficiency.

The focus on cost control has provided further impetus to the trend to outsourcing in the investment management industry. The Tower Group has noted that outsourcing provides immediate cost advantages and also offers participants strategic opportunities to devote IT staff to initiatives dedicated to customer acquisition and retention, as opposed to operational maintenance.

Outsourcing – the use of remote third-party IT systems and services – is gaining in popularity. With more than twenty-five years of experience as a supplier of IT outsourcing services, FMC is well positioned to serve the industry's need for outsourcing solutions.

FMC provides a variety of outsourcing services to users of its systems, under the umbrella of Applications Services Provisioning (ASP). FMC's flagship portfolio accounting and management system, FMCPacer, provides investment managers with a comprehensive multi-currency system that is available on an ASP basis. A large number of investment managers worldwide rely upon this robust and scalable solution. As investment managers seek to reduce capital outlays and gain efficiencies, FMCPacer's fee-for-service model appeals to many organizations, large and small.

FMC provides virtually all its systems, including FMCPages, FMCSylvan, FMCModel and others, on an outsourced basis. As the trend to outsourcing gathers momentum, FMC continues to develop its next-generation FMCSuite, a comprehensive industry platform providing ASP services for all FMC products.

By providing clients with the means to increase the efficiency and effectiveness of operational processes through automation and IT outsourcing, FMC provides clients with the value driven solutions they seek today.

"Our mission is to create wealth for all our stakeholders by delivering innovative solutions to the investment industry. We are customer focused and committed to high performance in everything we do."

Stamos D. Katotakis
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis explains developments in FMC's financial condition and results of operations for the year ended February 28, 2003 compared with the prior year. This should be read in conjunction with the audited consolidated financial statements and related notes included in this Annual Report to Shareholders. All monetary amounts are reported in Canadian dollars and are in accordance with Canadian generally accepted accounting principles (GAAP).

Financial Summary and Results of Operations

Summary of the consolidated statement of operations for the fiscal years ended February 28, 2003 and 2002 (in thousands):

	2003	2002
Revenue	**$ 76,320**	$ 76,193
Cost of revenue	**35,069**	38,605
Gross profit	**41,251**	37,588
Operating expenses	**36,086**	36,526
Earnings before the undernoted	**5,165**	1,062
Other income (expenses)	**(149)**	661
Depreciation	**(4,328)**	(4,061)
Amortization	**–**	(88)
Earnings (loss) before income taxes	**688**	(2,426)
Income taxes (recovery)	**1,141**	(406)
Net loss	**$ (453)**	$ (2,020)

Revenue

FMC's revenue from operations is derived mainly from: (i) fees for use of software products and data via application services; (ii) licence fees for use of the software products; (iii) licence maintenance fees; and (iv) fees for professional services including consulting, systems implementation and integration, customized software development and training. FMC recognizes revenue for application services when such services are provided to customers, generally on a monthly basis, in accordance with the provisions of signed contracts. Application services contracts are generally for two to three years at set fees, renewable annually. Revenue from licence sales is recognized when: (i) there is a signed agreement; (ii) the software is delivered; (iii) the licence fee is fixed and determinable; (iv) no significant vendor obligations remain; and (v) collection of the resulting receivable is determined as probable by management. Licence maintenance fees are collected annually, in advance, and are recognized over the term of the maintenance agreement, typically twelve months, renewable annually. Revenue from professional services is recognized as such services are provided to customers.

The application services option provides significant flexibility to clients because they can use FMC's application services environment, including software, communications, computing infrastructure, data and support services, without incurring significant costs for hardware and technical personnel. While the application services option provides less up front revenue to FMC than the licence option, it provides greater recurring revenues to FMC over time due to the provision of additional services by FMC. The application services option increases the predictability and stability of revenues to FMC, particularly on a quarter to quarter basis.

FMC considers its revenue from application services and licence maintenance to be recurring and its revenue from licence sales and professional services and other to be non-recurring.

Summary of recurring and non-recurring revenue (in thousands):

	2003	2002	Increase (Decrease)	%
Recurring	**$ 55,887**	$ 48,971	$ 6,916	14.1
Non-recurring	**20,433**	27,222	(6,789)	(24.9)
	$ 76,320	$ 76,193	$ 127	0.2

Total revenue of $76.3 million in 2003 compares to $76.2 million in 2002.

Recurring revenue from application services together with licence maintenance increased $6.9 million, or 14.1%, to $55.9 million in 2003 from $49.0 million in 2002. Recurring revenue grew to 73.2% of total revenue in 2003 compared to 64.3% in 2002. Total revenue during the several years immediately preceding 2002 was generally in the range of 50% recurring and 50% non-recurring.

The commencement of the 2002 fiscal year coincided with what is generally regarded as the onset of a downturn in the economy. The technology sector was adversely affected and capital spending was reduced. More specifically, the investment management industry reduced and deferred spending on software and services due to the declining worldwide equity markets. These conditions continued, and worsened, in 2003 due to further declines. As a result, FMC generated lower revenue from licence sales during 2003 as compared to 2002. The decreased revenue from licence sales resulted in a decrease in professional services revenue which is earned primarily from implementation, integration and training services associated with sales of FMC products. The decrease in professional services and other revenue was not as pronounced as the decrease in licence sales due to professional fees earned on a number of new application service implementations.

Non-recurring revenue from licence sales together with professional services and other decreased $6.8 million, or 24.9%, to $20.4 million in 2003 from $27.2 million in 2002. This decrease offset the growth in recurring revenue with the result that the total revenue for the year remains substantially the same.

Summary of revenue from operations by type (in thousands):

	2003	2002	Increase (Decrease)	%
Application services	**$ 43,495**	$ 38,786	$ 4,709	12.1
Licence sales	**4,668**	8,287	(3,619)	(43.7)
Licence maintenance	**12,392**	10,185	2,207	21.7
Professional services & other	**15,765**	18,935	(3,170)	(16.7)
	$ 76,320	$ 76,193	$ 127	0.2

Application services revenue increased $4.7 million, or 12.1%, in 2003 to $43.5 million from $38.8 million in 2002. The addition of new clients and the growing needs of existing clients to achieve productivity gains through the effective use of technology, outsourced to and managed by FMC, contributed to this increase. Application services revenue includes monthly fees from: (i) clients using FMC's mission critical software products, such as FMCPacer, FMC's portfolio management system, and FMCGenvest, FMC's portfolio general ledger system, on FMC's application services facility; (ii) clients using FMC's electronic data interchange network, FMCNet, which links investment managers, brokers and fund sponsors to custodians for the electronic confirmation and settlement of securities trades; (iii) clients purchasing securities prices, dividends, corporate actions and related data for stocks, options and bonds listed on North American and international exchanges from

FMC's Securities Valuation division; and (iv) the provision of facilities management services supporting FMC software at its computer facilities.

Throughout 2003, FMC experienced weaker market demand for licences than in 2002. Licence sales revenue decreased $3.6 million, or 43.7%, to $4.7 million in 2003 from $8.3 million in 2002. Licence sales are derived from the sale of FMCTrade, FMCModel, FMCPages, FMCRecon, FMCSylvan and its components and FMCPacer and its components. The sales cycle for the purchase of software is lengthy and hence unpredictable. Typically a sale will take 4 to 12 months or longer to complete depending on the size and complexity of the client's business environment and the number of products being purchased. The decision process requires a significant investment of customer resources over an extended period of time and FMC must provide a comprehensive amount of information to educate the customer on the use and benefits of the software products.

Licence maintenance revenue increased $2.2 million, or 21.7%, to $12.4 million in 2003 from $10.2 million in 2002. The growth in licence maintenance fees was primarily due to continued increases in the number of licence maintenance contracts.

Professional services and other revenue decreased $3.2 million, or 16.7%, to $15.8 million in 2003 from $18.9 million in 2002. Included in other revenue are equipment sales of $0.3 million in 2003 and $1.9 million in 2002. This decline accounts for $1.6 million of the $3.2 million decrease. Professional services revenue generated in 2003 was primarily from the implementation, integration and training services associated with 2003 and 2002 licence sales and new application services clients and ongoing training and consulting services to current clients. The remaining $1.6 million of the $3.2 million decrease was primarily due to the lower levels of implementations associated with the reduced 2003 licence sales.

Summary of revenue from operations by geographic segment (in thousands):

	2003	2002	Increase (Decrease)	%
Canada	**$ 39,442**	$ 37,437	$ 2,005	5.4
United States	**17,260**	17,927	(667)	(3.7)
Europe	**18,826**	20,718	(1,892)	(9.1)
Australia	**792**	111	681	613.5
	$ 76,320	$ 76,193	$ 127	0.2

Revenue from operations in Canada accounted for $39.4 million in 2003, or 51.7% of total revenue, compared to $37.4 million in 2002, or 49.1% of total revenue, an increase of $2.0 million, or 5.4%, over 2002. Revenue from international operations decreased to $36.9 million, or 48.3% of total revenue, compared to $38.8 million, or 50.9% of total revenue, a decrease of $1.9 million, or 4.9%. Recurring revenue from application services and licence maintenance increased in all markets, whereas non-recurring revenue from licence sales and professional fees and other decreased. The increase in Canadian revenue is attributable to a higher mix of recurring revenue in that market. The decline in international revenue is due to a higher mix of non-recurring revenue in those markets. The decrease was less in the United States due to the fact that increased professional fees were generated in 2003 from a number of new application service implementations.

In 2001, and recent prior years thereto, international revenue increased at a faster rate than domestic revenue. This was due to the larger size of the international markets and implementation of FMC's strategy of international expansion. It is expected that when the current economic conditions improve international revenue will again increase in the future at a faster rate than domestic revenue.

Cost of Revenue and Gross Profit

	2003	2002	(Decrease)	%
		(in thousands)		
Cost of revenue	**$ 35,069**	$ 38,605	$ (3,536)	(9.2%)

Cost of revenue decreased $3.5 million, or 9.2%, to $35.1 million in 2003 from $38.6 million in 2002. Cost of revenue consists of communications, data, hardware and software maintenance costs, and salaries, employee benefits, related overhead and travel expenses for those employees involved with the provision of professional services, client service, maintenance and support. Also included in cost of revenue is the cost of equipment sales of $0.3 million in 2003 and $1.6 million in 2002. This decline accounts for $1.3 million of the $3.5 million decrease. The remaining $2.2 million decrease was attributable to decreased travel and salary and related employee costs offset by increased data and communications costs. As a percentage of total revenue, cost of revenue decreased 4.8% to 45.9% in 2003 from 50.7% in 2002.

	2003	2002	Increase	%
		(in thousands)		
Gross profit	**$ 41,251**	$ 37,588	$ 3,663	9.7%

Gross profit increased $3.7 million, or 9.7%, to $41.3 million in 2003 from $37.6 million in 2002. Gross profit is directly influenced by the company's sales mix among software, data and professional services and other. Gross profit margins differ for each of these categories, with margins being highest in licence sales, high in application services and licence maintenance and lower in professional services and other, data and equipment sales. In 2003, gross profit as a percentage of total revenue increased 4.8% to 54.1% from 49.3% in 2002. This was primarily as a result of the decline in low margin equipment sales and decreased costs from reduced professional service staffing levels from 2002 to 2003.

Operating Expenses

Summary of operating expenses (in thousands):

	2003	2002	Increase (Decrease)	%
Sales & marketing	**$ 9,796**	$ 8,676	$ 1,120	12.9
Research & development	**18,519**	18,660	(141)	(0.8)
Administration	**6,867**	7,590	(723)	(9.5)
Realignment charge	**904**	1,600	(696)	(43.5)
	$ 36,086	$ 36,526	$ (440)	(1.2)

Operating expenses decreased $0.4 million, or 1.2%, to $36.1 million in 2003 from $36.5 million in 2002. Exclusive of the realignment charges in 2003 and 2002, operating expenses of $35.2 million in 2003 compares to $34.9 million in 2002.

Sales and marketing expenses increased $1.1 million, or 12.9%, to $9.8 million in 2003 from $8.7 million in 2002. As a percentage of total revenue, these expenses increased 1.4% to 12.8% in 2003 from 11.4% in 2002. Sales and marketing expenses consist principally of costs of salaries, benefits, related overheads, sales commissions and travel expenses for those employees involved in sales and marketing activities and advertising and promotional materials. The dollar and percentage increases are as a result of increased travel and salary and related employee costs, including commissions.

Research and development expenses of $18.5 million in 2003 compares to $18.7 million in 2002. As a percentage of total revenue, 24.3% in 2003 compares to 24.5% in 2002.

Research and development expenses consist primarily of salaries, benefits, related overheads and travel expenses for personnel and third party acquired software involved in the design, development and upgrade of FMC's current and planned products and services. All research and development costs remained relatively constant.

FMC continued to devote significant resources to the design and development of FMCSuite which will be ongoing in 2004. The design and development of FMCSuite through 2002 and 2003 included development of the underlying architecture to allow for scaleable deployment of FMC systems over the web on either an application services or licence basis. The architecture is designed to integrate FMC's products and is built specifically for straight through processing requirements. FMCModel and award winning FMCWealthNet have been released on FMCSuite's integrated platform. The resources dedicated to FMCSuite are in addition to necessary resources to maintain and upgrade the current product line.

Administration expenses decreased $0.7 million, or 9.5%, to $6.9 million in 2003 from $7.6 million in 2002. As a percentage of total revenue these costs decreased to 9.0% in 2003 from 10.0% in 2002. Administration expenses consist primarily of salaries, benefits and related overhead costs for those employees involved in finance, administration, legal, human resources and executive management, professional fees and allowances for doubtful accounts. The dollar and percentage decreases were due to decreases in allowances for doubtful accounts offset by increased salary and related employee costs.

FMC's business, as with most software companies, is essentially a fixed cost business with the primary cost being its staff. Upon the decline in revenues in the first quarter of the prior year, 2002, FMC recorded a realignment charge of $1.6 million and reduced its workforce early in the second quarter of 2002 by approximately 65 employees, or 12%, from the then level of approximately 530 employees. Subsequent to this, and through most of 2003, FMC maintained its staffing level in the range of 455 to 470 employees. In the fourth quarter of 2003, FMC reduced its workforce by approximately 25 employees, or 5%, to approximately 430 employees and recorded a realignment charge of $0.9 million. Cost savings from this will commence in the first quarter of 2004.

Earnings Before Other Income (Expenses), Depreciation, Amortization and Income Taxes ("EBITDA")

EBITDA increased to $5.2 million in 2003 from $1.1 million in 2002, an increase of $4.1 million. As revenues remained basically constant, the increase was mainly due to the $3.9 million decrease in combined cost of revenue and operating expenses to $71.2 million in 2003 from $75.1 million in 2002.

FMC uses EBITDA to assess the operating performance of its business segments. EBITDA represents earnings (loss) before the undernoted items on the consolidated statements of operations. The undernoted items are other income (expenses), depreciation, amortization and income taxes. EBITDA does not have a standardized meaning prescribed by GAAP and, therefore, is unlikely to be comparable to EBITDA as reported by other publicly traded companies.

Other Income (Expenses)

Other income (expenses) decreased $0.8 million to other expenses of $0.1 million in 2003 from other income of $0.7 million in 2002. Other income (expenses) consists of interest income, interest expense and net foreign exchange gains and losses. Net interest income increased to $0.4 million in 2003 from $0.2 million in 2002 due to the increase in the average cash balance held by FMC. As a result of holding balances of US dollar and Sterling denominated amounts, FMC experiences foreign exchange gains or losses. Foreign exchange losses of $0.5 million in 2003 compared to foreign exchange gains of $0.5 million in 2002.

Depreciation

Depreciation increased $0.2 million, or 6.6%, to $4.3 million in 2003 from $4.1 million in 2002 as a result of the addition of capital assets in 2003.

Amortization

On March 1, 2003, FMC discontinued amortization of goodwill and no amortization expense was recorded in 2003 as compared to $0.1 million in 2002.

Income Taxes (Recovery)

In 2003, a tax provision of $1.1 million was recorded on earnings before income taxes of $0.7 million, providing an effective income tax rate of 166.1%. This was primarily due to tax recoveries not being recorded in certain jurisdictions. In 2002, a tax recovery of $0.4 million was recorded on loss before income taxes of $2.4 million, providing an effective income tax recovery rate of 16.7% for the same reason.

Net Loss

Net loss decreased $1.5 million to $0.5 million in 2003 as against a net loss of $2.0 million in 2002. Basic and diluted loss per share decreased to a net loss per share of $0.04 in 2003 from net loss per share of $0.17 in 2002.

Quarterly Summary and Results of Operations

The quarterly summary on page 16 illustrates that despite the effects of reduced and deferred spending by the investment management industry, quarterly revenues have remained reasonably constant averaging approximately $19.0 million per quarter in both 2003 and 2002.

In the first and second quarters of 2002, FMC initiated and implemented a plan to reduce expenses. As a result of this plan and ongoing cost control, quarterly expenses, excluding realignment charges, were reduced from the then run rate of approximately $19.0 million per quarter, excluding cost of equipment sales, to the range of $17.2 million to $17.8 million per quarter experienced in the second half of 2002 and 2003. In the fourth quarter of 2003, FMC initiated additional expense reductions with the objective of further improving 2004 EBITDA and profitability.

Additionally, through 2002 and 2003 FMC focused on improving cash balances and cash flow from operations (before change in non-cash operating working capital). Seven consecutive quarters of positive cash flow from operations, combined with the decline in receivables to $12.6 million, among other things, has led to seven consecutive quarters of cash increases and an $11.0 million increase in cash to $23.2 million at February 28, 2003 from the level of $12.2 million, seven quarters prior.

Liquidity and Capital Resources

At February 28, 2003, FMC had cash on hand of $23.2 million. This is a $5.8 million increase from $17.4 million at February 28, 2002.

Cash flow generated from operations, prior to changes in non-cash operating working capital, was $4.2 million in 2003 and $1.1 million in 2002. Subsequent to changes in non-cash operating working capital, cash flow from operations was $10.5 million in 2003 and $7.1 million in 2002.

FMC's financing activities used cash of $3.1 million in 2003 and $0.7 million in 2002. In 2003, FMC spent $3.5 million to repurchase 519,800 common shares for cancellation under a normal course issuer bid at an average cost of approximately $7 per share. In 2002, 102,300 shares were repurchased under the issuer bid for $0.6 million, at an average cost of approximately $6 per share. In 2003, FMC generated cash of $0.4 million from the issuance of 101,480 shares upon the exercise of options at an average exercise price of $3.87 per share. In 2002, share issuances were nominal.

FMC's investing activities used cash of $1.7 million in 2003 and $3.4 million in 2002. FMC directed its investment activities for 2003 and 2002 towards capital expenditures primarily for the acquisition of computer hardware and software.

As of February 28, 2003, FMC had working capital of $25.4 million. Additionally, FMC has a credit facility available for a $5.0 million revolving line of credit secured by a general security agreement, a first fixed specific charge over certain of FMC's equipment and a general assignment of accounts receivable, bearing interest at the lender's prime rate. No monies had been drawn on the facility as at February 28, 2003.

In 2003, FMC received regulatory approval to continue a normal course issuer bid to purchase up to 500,000 of its common shares on the open market through the facilities of the Toronto Stock Exchange. Common shares purchased under this issuer bid will be cancelled. The normal course issuer bid does not obligate FMC to purchase any specific number of common shares and may be suspended at any time. FMC believes that the market price of its common shares at certain times may be attractive and that the purchase of common shares would be appropriate use of corporate funds in light of potential benefits to remaining shareholders.

FMC believes that current cash resources and cash flow from operations will be sufficient to meet its normal working capital and capital expenditures through fiscal 2004.

Summary and 2004 Outlook

2002 and 2003 were challenging years. 2002 started with a sudden downturn which led to a disappointing first quarter. This, in turn, led to a change in outlook and a refocusing of objectives for the remainder of 2002. Rather than improving, FMC's markets worsened in 2003. However, through 2002 and 2003, FMC has focused on maintaining revenues at constant levels and improving EBITDA and profitability. Additionally, FMC has focused upon improving cash flow and cash balances.

Looking forward to 2004, there is currently little evidence to suggest that there will be significant improvements in world economies in the near term. FMC expects its recurring revenue consisting of application services and licence maintenance to continue at comparable levels. FMC does not expect significant increases in its non-recurring revenue from licence sales and professional services. Accordingly, FMC expects to manage its 2004 expenses at similar levels to 2003.

Impact of Recent Accounting Pronouncements

A summary of recent Canadian accounting pronouncements which may have an effect on FMC are discussed in note 1(m) to the consolidated financial statements.

Forward Looking Statements

This annual report and management's discussion and analysis may contain certain forward looking statements relating, but not limited to, FMC's operations, anticipated financial performance, business prospects and strategies. Forward looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. Such forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward looking statements. Such factors include, but are not limited to, economic, competitive, regulatory and business conditions. FMC disclaims any responsibility to update any such forward looking statements.

QUARTERLY SUMMARY AND RESULTS OF OPERATIONS

Summary of the quarterly consolidated statement of earnings for quarters ending in the years ended February 28, 2003 and 2002 (in thousands, except earnings per share information):

	2003				2002			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue								
Application services	**$ 11,308**	**$ 10,857**	**$ 10,704**	**$ 10,626**	$ 10,408	$ 9,878	$ 9,519	$ 8,981
Licence sales	**1,973**	**381**	**1,288**	**1,026**	2,082	2,111	3,281	813
Licence maintenance	**3,180**	**3,295**	**3,151**	**2,766**	2,631	2,768	2,449	2,337
Professional services & other	**3,458**	**3,496**	**4,234**	**4,577**	4,658	4,686	3,523	6,068
	19,919	**18,029**	**19,377**	**18,995**	19,779	19,443	18,772	18,199
Cost of revenue & operating expenses	**17,307**	**17,821**	**17,585**	**17,538**	17,216	17,624	18,056	20,635
Realignment charge	**904**	**–**	**–**	**–**	–	–	–	1,600
Earnings (loss) before the undernoted (EBITDA)	**1,708**	**208**	**1,792**	**1,457**	2,563	1,819	716	(4,036)
Other income (expenses)	**(141)**	**132**	**(25)**	**(115)**	242	57	239	123
Depreciation	**(1,088)**	**(1,114)**	**(1,053)**	**(1,073)**	(1,280)	(920)	(929)	(932)
Amortization	**–**	**–**	**–**	**–**	(22)	(22)	(22)	(22)
Earnings (loss) before income taxes	**479**	**(774)**	**714**	**269**	1,503	934	4	(4,867)
Income taxes (recovery)	**524**	**(48)**	**468**	**197**	456	378	339	(1,579)
Net earnings (loss)	**$ (45)**	**$ (726)**	**$ 246**	**$ 72**	$ 1,047	$ 556	$ (335)	$ (3,288)
Basic earnings (loss) per share	**$ (0.00)**	**$ (0.06)**	**$ 0.02**	**$ 0.01**	$ 0.09	$ 0.05	$ (0.03)	$ (0.28)
Cash at end of quarter	**$ 23,157**	**$ 21,623**	**$ 21,082**	**$ 20,084**	$ 17,410	$ 13,974	$ 13,127	$ 12,152
Cash flow from operations	**$ 1,468**	**$ 158**	**$ 1,506**	**$ 1,028**	$ 3,150	$ 1,429	$ 346	$ (3,824)
Accounts receivable	**$ 12,593**	**$ 15,559**	**$ 15,468**	**$ 13,709**	$ 14,180	$ 18,012	$ 17,685	$ 17,827
Working capital	**$ 25,437**	**$ 24,613**	**$ 26,894**	**$ 25,439**	$ 25,914	$ 24,037	$ 23,499	$ 23,323

FINANCIAL MODELS

FIVE YEAR FINANCIAL REVIEW

Five year summary of the consolidated statement of earnings, cash flow from operations and selected balance sheet items for the fiscal years ended February 28 or 29 (in thousands, except earnings and cash flow per share information):

	2003	2002	2001	2000	1999
Revenue	**$ 76,320**	$ 76,193	$ 78,865	$ 64,777	$ 52,513
Cost of revenue & operating expenses	**70,251**	73,531	70,823	59,487	41,114
Realignment charge	**904**	1,600	–	–	–
Receivables reserve	**–**	–	3,840	–	–
Earnings before the undernoted	**5,165**	1,062	4,202	5,290	11,399
Other income (expenses)	**(149)**	661	1,384	539	1,656
Depreciation	**(4,328)**	(4,061)	(3,538)	(3,255)	(1,884)
Amortization	**–**	(88)	(1,556)	(1,164)	(88)
Write-down of goodwill	**–**	–	(4,796)	–	–
Earnings (loss) before income taxes	**688**	(2,426)	(4,305)	1,410	11,083
Income taxes (recovery)	**1,141**	(406)	1,033	969	4,341
Net earnings (loss)	**$ (453)**	$ (2,020)	$ (5,338)	$ 441	$ 6,742
Basic earnings (loss) per share	**$ (0.04)**	$ (0.17)	$ (0.44)	$ 0.03	$ 0.57
Cash at end of year	**$ 23,157**	$ 17,410	$ 14,397	$ 19,766	$ 31,803
Cash flow from operations	**$ 4,160**	$ 1,101	$ 4,510	$ 6,092	$ 8,817
Cash flow per share	**$ 0.36**	$ 0.09	$ 0.37	$ 0.48	$ 0.74
Working capital	**$ 25,437**	$ 25,914	$ 28,834	$ 34,581	$ 41,425
Total assets	**$ 50,622**	$ 52,655	$ 57,677	$ 66,283	$ 67,139
Shareholders' equity	**$ 36,386**	$ 39,816	$ 42,395	$ 53,628	$ 53,750

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all other information included in this annual report have been prepared by and are the responsibility of the management of FMC. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgements based on information currently available. All other financial information in the annual report is consistent with that contained in the financial statements. FMC maintains appropriate systems of internal control, policies and procedures that provide management with reasonable assurance that assets are safeguarded and that its financial information is timely, reliable and accurate.

Ultimately, the Board of Directors is responsible for the approval of the consolidated financial statements prior to publication. The Board of Directors, through the Audit Committee, is also responsible for ensuring that management fulfills its responsibilities. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board.

Independent auditors are appointed by the shareholders. The independent auditors, KPMG LLP, have audited the consolidated financial statements in accordance with generally accepted auditing standards. Their audit report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their findings.

Stamos D. Katotakis
President & Chief Executive Officer

Stephen Ashbury

Stephen J. Ashbury C.A.
Vice President, Finance

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Financial Models Company Inc. as at February 28, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
April 3, 2003

FMC FINANCIAL MODELS

CONSOLIDATED BALANCE SHEETS

Years ended February 28, 2003 and 2002 (in thousands)

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 23,157**	$ 17,410
Accounts receivable	**12,593**	14,180
Accrued revenue	**1,258**	2,738
Income taxes recoverable	**897**	2,481
Prepaid expenses	**1,768**	1,944
	39,673	38,753
Property and equipment (note 2)	**8,568**	11,236
Goodwill	**367**	367
Future income taxes (note 10(d))	**2,014**	2,299
	$ 50,622	$ 52,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 6,515**	$ 5,958
Deferred revenue	**7,721**	6,881
	14,236	12,839
Shareholders' equity:		
Capital stock (note 4)	**39,308**	40,744
Deficit	**(2,739)**	(665)
Cumulative translation adjustments	**(183)**	(263)
	36,386	39,816
	$ 50,622	$ 52,655

Commitments (note 12)

Contingencies (note 14)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

William R. Watson

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

	2003	2002
Revenue:		
Application services	**$ 43,495**	$ 38,786
Licence sales	**4,668**	8,287
Licence maintenance	**12,392**	10,185
Professional services and other	**15,765**	18,935
	76,320	76,193
Cost of revenue	**35,069**	38,605
	41,251	37,588
Operating expenses:		
Sales and marketing	**9,796**	8,676
Research and development	**18,519**	18,660
Administration	**6,867**	7,590
Realignment charge (note 8)	**904**	1,600
	36,086	36,526
Earnings before the undernoted	**5,165**	1,062
Other income (expenses) (note 9)	**(149)**	661
Depreciation	**(4,328)**	(4,061)
Amortization	–	(88)
Earnings (loss) before income taxes	**688**	(2,426)
Income taxes (recovery) (note 10):		
Current	**856**	622
Future	**285**	(1,028)
	1,141	(406)
Net loss	$ **(453)**	$ (2,020)
Loss per share:		
Basic and diluted (note 4(e))	$ **(0.04)**	$ (0.17)
Weighted average number of common and Class C shares outstanding:		
Basic and diluted (note 4(e))	**11,558**	11,860

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT

Years ended February 28, 2003 and 2002 (in thousands)

	2003	2002
(Deficit) retained earnings, beginning of year	**$ (665)**	$ 1,651
Net loss	**(453)**	(2,020)
Premium on redemption of common shares (notes 4(c) and (d))	**(1,621)**	(239)
Repurchase of options (note 5)	**–**	(57)
Deficit, end of year	**$ (2,739)**	$ (665)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended February 28, 2003 and 2002 (in thousands)

	2003	2002
Cash provided by (used in):		
Operations:		
Net loss	**$ (453)**	$ (2,020)
Items not involving cash:		
Depreciation and amortization	**4,328**	4,149
Future income taxes	**285**	(1,028)
	4,160	1,101
Change in non-cash operating working capital (note 11)	**6,347**	6,011
	10,507	7,112
Financing:		
Issue of capital stock	**393**	15
Repurchase of common shares for cancellation	**(3,450)**	(637)
Repurchase of options for cancellation	**–**	(57)
	(3,057)	(679)
Investments:		
Additions to property and equipment, net	**(1,703)**	(3,420)
Increase in cash and cash equivalents	**5,747**	3,013
Cash and cash equivalents, beginning of year	**17,410**	14,397
Cash and cash equivalents, end of year	**$ 23,157**	$ 17,410
Supplemental cash flow information:		
Interest paid	**$ 91**	$ 209
Income taxes paid	**1,824**	1,038

See accompanying notes to consolidated financial statements.

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

Financial Models Company Inc. (the "Company") provides computer software and related services for investment management to institutional clients in Canada and, through subsidiaries, to institutional clients in the United States, Europe, Australia and other parts of the world.

1. Significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies. Intercompany transactions and balances are eliminated on consolidation.

(b) Basis of presentation and use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant areas requiring the use of estimates relate to depreciation rates for property and equipment, and valuation of goodwill and accounts receivable. Actual results could differ from those estimates. All references to a year in these financial statements relate to a fiscal year unless specifically expressed otherwise. The material differences between generally accepted accounting principles in Canada and the United States are described in note 15.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with major financial institutions.

(d) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Rates of depreciation applied to depreciate the cost of the property and equipment over their estimated useful lives on a straight-line basis are as follows:

Office furniture and equipment	20%
Computer equipment and software	25%
Leasehold improvements	Over term of lease

(e) Research and development

Research costs are expensed as incurred. Costs related to development projects are deferred only when they meet the criteria set out under generally accepted accounting principles. To date, no development costs have been deferred.

(f) Goodwill from business combinations

For business combinations prior to July 1, 2001, all goodwill was amortized on a straight-line basis over 5 to 10 years. Effective March 1, 2002, the Company discontinued amortization of all existing goodwill. These changes are a result of new accounting standards issued in 2001 which are summarized in note 1(l) – changes in accounting policies.

Upon adopting these standards on March 1, 2002, the Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying value to its fair value. The fair values of the reporting units are estimated using a discounted cash flow approach. To the extent a reporting unit's carrying amount exceeds its fair value, an impairment of goodwill exists. Impairment is measured by comparing the fair value of goodwill, determined in a manner similar to a purchase price allocation, to its carrying amount. The Company conducted its annual goodwill assessment in the fourth quarter of 2003 and no impairment existed.

Prior to 2003, the Company reviewed goodwill annually for impairment based on estimated future operating income on an undiscounted basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(g) Revenue recognition

The Company recognizes revenue in accordance with the guidance provided in the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition", as amended and interpreted.

Revenue from licence sales is recognized when a contract has been executed with the customer, the software has been delivered to the customer, the licence fee is fixed and determinable, the collection of the resulting receivable is deemed probable and no significant vendor obligations remain. Licence sales that have been prepaid but do not yet qualify for revenue recognition are recorded as deferred revenue and recognized as revenue once revenue recognition criteria are met. Licence maintenance revenue invoiced to customers in advance of the services being rendered is recorded as deferred revenue and is recognized as revenue on a straight-line basis over the life of the maintenance agreement. Advance billings for maintenance services are netted against the related deferred revenue if both payment of the invoice and the commencement of the maintenance term have not occurred by period end. Revenue from application services and professional and other services is recognized as such services are provided to customers. Revenue recognized in accordance with the Company's revenue recognition policies but unbilled at year end is reflected as accrued revenue on the balance sheet.

Where the Company enters into a multiple element arrangement (e.g., a sales arrangement including delivered and undelivered software products, maintenance and professional services), the fees are allocated to each element based on vendor specific objective evidence ("VSOE") of each element's fair value. Where sufficient VSOE does not exist for undelivered elements, revenue for delivered elements are deferred until the earlier of when VSOE is established or when all elements in the arrangement have been delivered.

VSOE used in determining the fair value of licence revenue is generally based on the Company's price list for the software product and is affected by factors such as the number of servers and concurrent users as well as the size, nature and geographic location of the customer. VSOE used in determining the fair value of implementation, training, consulting and other services is based on the standard hourly rates per diem for the type of service being provided. VSOE used in determining the fair value of maintenance and technical support is based on a percentage of the licence fee revenue.

Where the above criteria requires revenue to be deferred to a future period, the associated direct costs incurred, if significant, are deferred until such time as revenue is recognized. Costs in excess of revenue deferred are expensed in the period.

(h) Investment tax credits

Investment tax credits are accounted for as a reduction of the related expenditure when the Company has reasonable assurance that the credit will be realized.

(i) Foreign currency transactions

The Company's foreign subsidiaries are considered to be self-sustaining operations. Accordingly, the Company utilizes the current rate method to translate the financial statements of these subsidiaries into Canadian dollars. Under the current rate method, the assets and liabilities of these subsidiaries are translated at the rates of exchange in effect at the balance sheet dates and revenue and expenses at the weighted average rates for the years. Exchange gains or losses arising from the translation of the financial statements of the self-sustaining foreign operations are deferred and included in cumulative translation adjustments as a separate component of shareholders' equity.

Other foreign currency transactions included in these consolidated financial statements are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date in the case of monetary assets and liabilities and at the rates of exchange in effect on the date of transaction in the case of non-monetary assets and income and expenses. All gains and losses on translation of these foreign currency transactions are included in income.

(j) Income taxes

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the period that includes the substantive enactment date. A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of future income tax assets and liabilities.

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

(k) Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding during the reporting year. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting years.

(l) Changes in accounting policies

(i) Goodwill and other intangible assets

In 2001, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3062, "Goodwill and Other Intangible Assets". The new standard requires that goodwill and intangible assets with indefinite lives no longer be amortized, but instead are tested for impairment at least annually by comparing their fair values with their book values. The new standard does not change the accounting for intangible assets with determinable lives, which continue to be amortized over their estimated useful lives and are tested for impairment by comparing their book values with the undiscounted cash flow expected to be received from their use.

The Company has fully adopted this standard as of March 1, 2002 and discontinued amortization of all existing goodwill. The Company also determined that there are no other intangible assets that should be recognized apart from goodwill as a result of adoption of this standard.

In connection with the standard's transitional goodwill impairment evaluation, the Company was required to assess whether goodwill was impaired as of March 1, 2002. The Company has completed the transitional goodwill impairment assessment which was made in a manner consistent with the Company's accounting policy disclosed in note 1(f), and has determined that no impairment existed as of the date of adoption.

At March 1, 2002, the Company had unamortized goodwill of $367 (net of accumulated amortization of $513), which is no longer being amortized. This change in accounting policy is not applied retroactively and the amounts presented for prior years have not been restated for this change. If this change in accounting policy were applied retroactively to the consolidated statement of operations, the impact of the change would be as follows:

		2002
Net loss, as reported	$	(2,020)
Amortization of goodwill		88
Net loss before amortization of goodwill	$	(1,932)
Loss per share, as reported	$	(0.17)
Amortization of goodwill		0.01
Loss per share for the year before amortization of goodwill	$	(0.16)

(ii) Stock-based compensation

Effective March 1, 2002, the Company adopted, on a prospective basis, the new recommendations of the CICA with respect to stock-based compensation. Under these recommendations, a fair value based method of accounting is to be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, stock-based awards that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees but then requires the presentation of supplementary pro forma net earnings and per share information as if the fair value method had been applied. See note 5 for the pro forma disclosures for options issued in 2003. The pro forma effect of awards granted prior to March 1, 2002 has not been included.

The Company has a share option plan for employees and officers of the Company which is described in note 5.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

(m) Recently issued accounting pronouncements

(i) Foreign currency translation and hedging relationships

Effective March 1, 2002, the Company adopted amended CICA Handbook Section 1650 to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items, with retroactive restatement of prior periods. The Company was not affected by this change. The CICA issued Accounting Guideline AcG-13 which establishes criteria for hedge accounting effective for the Company's 2005 fiscal year. Because the Company currently does not engage in any hedging activities, the adoption of AcG-13 will not have an effect on the Company's financial condition or results of operations upon adoption.

(ii) Impairment or disposal of long-lived assets

In December 2002, the CICA issued Section 3063, "Impairment of Long-Lived Assets" and revised Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations." These sections supersede the write-down and disposal provisions of Section 3061, "Property, Plant and Equipment", and Section 3475, "Discontinued Operations". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held-for-use. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value. Section 3475 provides specific criteria for and requires separate classification for assets held-for-sale and for these assets to be measured at the lower of their carrying amounts or fair value, less costs to sell. Section 3475 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from operations. Section 3063 is effective for the Company's 2004 fiscal year; however, early application is permitted. Revised Section 3475 is applicable to disposal activities committed to by the Company after May 1, 2003; however, early application is permitted. The Company expects that the adoption of these standards will have no material impact on its financial position, results from operations or cash flows.

(iii) Guarantees

In December 2002, the CICA approved Accounting Guideline AcG-14 which requires certain disclosures of obligations under guarantees, effective for the Company's first quarter of 2004. The guideline is generally consistent with the disclosure requirements for guarantees under U.S. GAAP. The guideline does not apply to product warranties or the measurement requirements under U.S. GAAP. The Company has disclosed its guarantees under U.S. GAAP in note 15(g). The Company expects that the adoption of this guideline will have no material impact on its financial position, results of operations or cash flows.

2. Property and equipment

2003	Cost	Accumulated depreciation	Net book value
Office furniture and equipment	**$ 4,859**	**$ 3,441**	**$ 1,418**
Computer equipment and software	**14,397**	**9,475**	**4,922**
Leasehold improvements	**3,214**	**986**	**2,228**
	$ 22,470	**$ 13,902**	**$ 8,568**

2002	Cost	Accumulated depreciation	Net book value
Office furniture and equipment	$ 5,026	$ 2,743	$ 2,283
Computer equipment and software	14,266	7,788	6,478
Leasehold improvements	3,120	645	2,475
	$ 22,412	$ 11,176	$ 11,236

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

3. Bank facility

The Company has a credit facility totaling $8,000 with a Canadian bank, consisting of an operating line of credit in the amount of $5,000 and available letters of credit in the amount of $3,000. The facility is secured by a general security agreement conveying a first floating charge over the Company's assets, a first fixed specific charge over certain of the Company's equipment and a general assignment of accounts receivable. Several financial covenants are also required to be maintained. Amounts drawn bear interest at the bank's prime rate or letter of credit rate, as applicable. At February 28, 2003 and 2002, no amounts were drawn on the operating line of credit.

4. Capital stock

(a) The authorized share capital of the Company at February 28, 2003 is as follows:

Unlimited number of common shares, voting

Unlimited number of Class C shares, non-voting and convertible into common shares on a 1:1 basis at the option of the holder

(b) The issued share capital of the Company is as follows:

	Number of shares	
	Class C	Common
Balance, February 28, 2001	1,344	10,540
Repurchased for cancellation	–	(102)
Issued on exercise of options	–	4
Balance, February 28, 2002	1,344	10,442
Repurchased for cancellation	–	(520)
Issued on exercise of options	–	102
Balance, February 28, 2003	**1,344**	**10,024**

	Class C	Common	Total
Balance, February 28, 2001	$ 4,002	$ 37,125	$ 41,127
Repurchased for cancellation	–	(398)	(398)
Issued on exercise of options	–	15	15
Balance, February 28, 2002	4,002	36,742	40,744
Repurchased for cancellation	–	(1,829)	(1,829)
Issued on exercise of options	–	393	393
Balance, February 28, 2003	**$ 4,002**	**$ 35,306**	**$ 39,308**

(c) During 2003, the Company completed the following capital stock transactions:

(i) 102 common shares were issued from treasury for cash proceeds of $393 following the exercise of 102 stock options (note 5).

(ii) 520 common shares were repurchased for cancellation for $3,450. The $1,621 excess of the repurchase price paid over the carrying value of the shares has been charged to deficit.

(d) During 2002, the Company completed the following capital stock transactions:

(i) 4 common shares were issued from treasury for cash proceeds of $15 following the exercise of 4 stock options (note 5).

(ii) 102 common shares were repurchased for cancellation for $637. The $239 excess of the repurchase price paid over the carrying value of the shares has been charged to deficit.

(e) As a result of net losses for the years ended February 28, 2003 and 2002, the potential effect of exercising stock options has not been included in the calculation of diluted loss per share because to do so would be anti-dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

5. Stock options

The Company's share option plan (the "Option Plan") is overseen by the Compensation Committee of the Board of Directors of the Company and is available to all full-time employees and officers of the Company. An aggregate number of 2,500 (2002 – 2,500) common shares is reserved for issuance under the Option Plan.

Options to purchase common shares of the Company granted under the Option Plan vest at such time and on such terms as are determined by the Board of Directors. Options will be exercisable for a maximum of 10 years from the date of grant. Options vest as follows: 20% at each of the first three anniversary dates of the grant and the remaining 40% on the fourth anniversary of the grant. The exercise price of options granted is equal to the fair market value of the underlying common shares on the date of the grant. Options relating to 2003 for the Option Plan will be granted in fiscal 2004.

In 2001, an option repurchase plan was initiated whereby the option holder could request the Company repurchase, at its discretion, unexercised options for fair value consideration. In 2002, the Company repurchased for cancellation 24 options for total proceeds of $57 which has been charged to deficit. In 2003, no options were repurchased under the plan and the Company rescinded the option repurchase plan.

A summary of the changes in the Company's Option Plan for the years ended February 28, 2003 and 2002 is as follows:

	2003		2002	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Balance, beginning of year	**1,199**	**$ 8.10**	1,113	$ 8.58
Options granted	**240**	**5.33**	271	4.48
Options exercised	**(102)**	**3.87**	(4)	3.64
Options repurchased	**–**	**–**	(24)	3.61
Options cancelled	**(100)**	**8.09**	(157)	6.07
Balance, end of year	**1,237**	**7.91**	1,199	8.10
Exercisable, end of year	**634**	**$ 8.82**	584	$ 8.31

As of February 28, 2003, options to acquire common shares issued and outstanding were as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at February 28, 2003	Weighted-average remaining contractual life (yrs)	Weighted-average exercise price	Number exercisable at February 28, 2003	Weighted-average exercise price
$3.25	**77**	**0.58**	**$ 3.25**	**77**	**$ 3.25**
$4.92 – $5.95	**398**	**4.63**	**5.21**	**68**	**5.28**
$8.66 – $8.75	**387**	**3.21**	**8.68**	**212**	**8.69**
$9.85 – $10.20	**277**	**2.17**	**9.88**	**179**	**9.89**
$14.00	**98**	**0.62**	**14.00**	**98**	**14.00**
	1,237	**3.07**	**$ 7.91**	**634**	**$ 8.82**

In 2003, the Company granted 240 stock options at an average exercise price of $5.33 and a weighted-average fair value of $2.78. For purposes of the pro forma disclosures, the fair value of each option grant is estimated on the date of grant using the following weighted-average assumptions for option grants subsequent to March 1, 2002: risk-free rate of 4.74%; dividend yield of 0%; a volatility factor of 53%; and an expected option life of five years. Had compensation cost for stock options amounts been determined under the fair value method, as described in note 1, the Company's 2003 net loss and loss per share would have increased to the following pro forma amounts:

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

Net loss, as reported	$ (453)
Compensation cost	(217)
Net loss, pro forma	$ (670)
Pro forma basic and diluted loss per share	$ (0.06)

6. Segmented information

Operating Segments

The Company has five reportable operating segments, each of which has a separate operational management. Each of the five segments provides computer software and related services for investment management to institutional clients. The determination of operating segments is based on the identification of the core management teams which operate the Company's business in its four principal geographic markets, Canada, the United States, Europe and Australia and its data business, Securities Valuation ("SVC").

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in note 1. The Company evaluates performance of its operating segments based on earnings from operations.

Effective March 1, 2002, the Company's Australian operations have been classified as a separate reportable operating segment. Comparative balances have been reclassified to conform with current year's presentation.

Information by operating segment is as follows:

2003	FMC Canada	FMC United Kingdom	FMC United States	FMC Australia	SVC	Eliminations	Consolidated Total
Revenue:							
Application services	$ 22,170	$ 5,805	$ 6,166	$ 135	$ 9,219	$ –	$ 43,495
Licence sales	1,077	2,174	1,119	298	–	–	4,668
Licence maintenance	2,234	5,907	4,208	43	–	–	12,392
Professional services & other	4,733	4,940	5,767	316	9	–	15,765
Sales between operating segments	12,453	–	–	–	1,762	(14,215)	–
	$ 42,667	$ 18,826	$ 17,260	$ 792	$ 10,990	$ (14,215)	$ 76,320
Earnings (loss) before the undernoted	$ 2,577	$ 213	$ 325	$ (660)	$ 2,710	$ –	5,165
Depreciation	$ (3,674)	$ (212)	$ (313)	$ (70)	$ (59)	$ –	(4,328)
Other income (expenses)							(149)
Income taxes							1,141
Net loss							$ (453)
Additions to property and equipment, net	$ 1,521	$ 10	$ 74	$ 9	$ 89	$ –	$ 1,703
Goodwill	$ –	$ –	$ –	$ –	$ 367	$ –	$ 367
Identifiable assets	$ 33,157	$ 6,978	$ 5,788	$ 446	$ 4,253	$ –	$ 50,622

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

2002	FMC Canada	FMC United Kingdom	FMC United States	FMC Australia	SVC	Eliminations	Consolidated Total
Revenue:							
Application services	$ 20,059	$ 5,355	$ 5,717	$ 14	$ 7,641	$ –	$ 38,786
Licence sales	916	4,414	2,893	64	–	–	8,287
Licence maintenance	2,042	4,095	4,048	–	–	–	10,185
Professional services & other	6,701	6,854	5,269	33	78	–	18,935
Sales between operating segments	12,852	–	–	–	1,888	(14,740)	–
	$ 42,570	$ 20,718	$ 17,927	$ 111	$ 9,607	$ (14,740)	$ 76,193
Earnings (loss) before the undernoted	$ (377)	$ 1,887	$ (713)	$ (960)	$ 1,225	$ –	1,062
Depreciation	$ (3,390)	$ (259)	$ (339)	$ (21)	$ (52)	$ –	(4,061)
Other income (expenses)							661
Amortization							(88)
Income tax recovery							(406)
Net loss							$ (2,020)
Additions to property and equipment, net	$ 3,220	$ 51	$ 64	$ 2	$ 83	$ –	$ 3,420
Goodwill	$ –	$ –	$ –	$ –	$ 367	$ –	$ 367
Identifiable assets	$ 27,308	$ 15,458	$ 6,677	$ 306	$ 2,906	$ –	$ 52,655

Geographic Segments

The Company has operations primarily in Canada, the United States, Europe and Australia. Revenues below are attributed to geographic segments based on the location of the customer. Information by geographic segment is as follows:

2003	Canada	Europe	United States	Australia	Eliminations	Consolidated Total
Revenue:						
Sales to third parties	**$ 39,442**	**$ 18,826**	**$ 17,260**	**$ 792**	**$ –**	**$ 76,320**
Sales between geographic segments	**14,215**	**–**	**–**	**–**	**(14,215)**	**–**
	$ 53,657	**$ 18,826**	**$ 17,260**	**$ 792**	**$ (14,215)**	**$ 76,320**
Property and equipment	**$ 7,182**	**$ 593**	**$ 669**	**$ 124**	**$ –**	**$ 8,568**
Goodwill	**$ 367**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 367**

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

2002	Canada	Europe	United States	Australia	Eliminations	Consolidated Total
Revenue:						
Sales to third parties	$ 37,437	$ 20,718	$ 17,927	$ 111	$ –	$ 76,193
Sales between geographic segments	14,740	–	–	–	(14,740)	–
	$ 52,177	$ 20,718	$ 17,927	$ 111	$ (14,740)	$ 76,193
Property and equipment	$ 9,331	$ 766	$ 967	$ 172	$ –	$ 11,236
Goodwill	$ 367	$ –	$ –	$ –	$ –	$ 367

7. Financial instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

The Company does not have any significant concentrations of credit risk with any individual customer on an ongoing basis and the Company does not believe that it has any significant credit risk in any of the countries in which it operates.

Foreign exchange risk results from variations in exchange rates between the Canadian dollar and foreign currencies which affect the Company's operating and financial results. The Company transacts a significant portion of its operations in U.S. dollars and U.K. pounds and did not use derivative instruments to reduce its exposure to the foreign exchange risk in 2003 or 2002.

8. Realignment charge

In the fourth quarter of 2003, the Company initiated and completed a realignment plan to streamline operations and optimize profitability and recorded a realignment charge of $904 substantially for the cost of severance and related benefits. The Company reduced its workforce by approximately 25 employees, or 5%, under this initiative. As at February 28, 2003, $523 was unpaid and is included in accounts payable and accrued liabilities.

In the first quarter of 2002, the Company recorded a similar realignment charge of $1,600 substantially for the cost of severance and related benefits whereby its workforce was reduced by approximately 65 employees, or 12%. All amounts under this plan were paid in 2002.

9. Other income (expenses)

	2003	2002
Interest income	**$ 454**	$ 384
Foreign exchange gain (loss)	**(512)**	486
Other interest expense	**(91)**	(209)
	$ (149)	$ 661

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

10. Income taxes

(a) The Company and its subsidiaries carry out activities in a number of countries. The income tax effect on operations depends on the income tax legislation in each country and the operating results of the Company and each subsidiary. The provision for (recovery of) income taxes reflects an effective income tax rate which differs from the Canadian corporate income tax rate as follows:

	2003	2002
Combined basic Canadian federal and provincial income tax rate	**37.7%**	41.5%
Income taxes (recovery) based on above rate	**$ 259**	$ (1,007)
Increase (decrease) resulting from:		
Lower rate on losses (earnings) of foreign subsidiaries	**391**	(302)
Adjustments to future income tax assets and liabilities for changes in enacted tax rates	**192**	246
Change in valuation allowance for future income tax assets	**175**	505
Income tax losses of foreign subsidiary not recorded	**74**	59
Non-deductible amortization of goodwill	**–**	36
Non-deductible expenses	**84**	85
Other	**(34)**	(28)
	$ 1,141	$ (406)
Combined actual effective income tax rate	**166.1%**	16.7%

(b) Future income tax expense (recovery) results from temporary differences in the recognition of income and expenses for income tax and financial statement reporting purposes. The sources and effects of those temporary differences are as follows:

	2003	2002
Excess of income tax depreciation and amortization over financial statement amounts	**$ (333)**	$ (876)
Use (recognition) of benefit of income tax losses	**418**	(924)
Share issue costs	**132**	267
Valuation allowance	**175**	505
Non-deductible reserves	**(107)**	–
	$ 285	$ (1,028)

(c) Income tax expense (recovery) consists of:

	Current	Future	Total
Year ended February 28, 2003:			
Federal income taxes	**$ 578**	**$ 328**	**$ 906**
Provincial income taxes	**252**	**150**	**402**
Foreign income taxes	**26**	**(193)**	**(167)**
	$ 856	**$ 285**	**$ 1,141**
Year ended February 28, 2002:			
Federal income taxes	$ 289	$ (687)	$ (398)
Provincial income taxes	143	(341)	(198)
Foreign income taxes	190	–	190
	$ 622	$ (1,028)	$ (406)

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

(d) The tax effects of temporary differences that give rise to the future income tax assets and future income tax liabilities are as follows:

	2003	2002
Future income tax assets:		
Share issue costs	**$ –**	$ 132
Net operating loss carryforwards	**2,056**	2,474
Depreciation and amortization	**531**	198
Non-deductible reserves	**107**	–
	2,694	2,804
Less valuation allowance	**680**	505
Net future income tax asset	**$ 2,014**	$ 2,299

At February 28, 2003, the Company has non-capital losses available to reduce future years' taxable income primarily in Canada of approximately $6,600, which have expiry dates as follows:

2004	**$ 297**
2005	**146**
2007	**211**
2008	**1,390**
2009	**2,306**
No expiry date	**2,250**

11. Change in non-cash operating working capital

	2003	2002
Accounts receivable	**$ 1,587**	$ 5,965
Income taxes recoverable	**1,584**	703
Prepaid expenses	**176**	(593)
Accrued revenue	**1,480**	2,301
Accounts payable and accrued liabilities	**680**	(2,915)
Deferred revenue	**840**	550
	$ 6,347	$ 6,011

12. Commitments

(a) The Company and its subsidiaries have entered into agreements to lease premises which expire at various dates to 2014. The annual rent of premises consists of a minimum rent plus realty taxes, maintenance, heat and certain other expenses. Minimum rent payable for premises in aggregate is as follows:

2004	**$ 3,264**
2005	**3,529**
2006	**3,259**
2007	**3,156**
2008	**2,803**
Thereafter	**12,194**
	$ 28,205

(b) Rent expense for the year ended February 28, 2003 was $3,343 (2002 – $3,128).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

13. Related party transactions

The Company incurred fees of $10 (2002 – $30) from a company controlled by one of the directors.

The transactions are in the normal course of operations and are measured at the exchange amounts, being the amounts agreed to by the parties.

14. Contingencies

In 2001, the Company initiated a claim against a development stage client for a consulting engagement then terminated by the client. The Company claimed approximately U.S. $1,900 for outstanding accounts receivable, U.S. $10,000 in damages and certain other equitable relief. In 2002, the defendants to the action filed a defence and counterclaim seeking damages in the amount of $20,000, alleged to have arisen from, among other things, breach of contract by the Company. The amount of potential loss, if any, from this counterclaim is not currently determinable. The Company believes the counterclaim is without merit and intends to vigorously defend the counterclaim.

In the normal course of operations, the Company may be subject to litigation, claims and counterclaims. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material impact on the financial position of the Company.

15. Canadian and United States accounting policy differences

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles as applied in Canada ("Canadian GAAP"). The significant differences between Canadian GAAP and those applied in the United States ("U.S. GAAP") are described below:

Consolidated statements of operations:

The following table reconciles net loss as reported in the accompanying consolidated statements of operations to net loss that would have been reported had the consolidated financial statements been prepared in accordance with U.S. GAAP. In addition, U.S. GAAP requires the disclosure of a statement of comprehensive income (loss). Comprehensive income (loss) generally encompasses all changes in shareholders' equity except those arising from transactions with shareholders.

	2003	2002
Net loss in accordance with Canadian GAAP	**$ (453)**	$ (2,020)
Compensation (expense) income (note 15(a))	**(60)**	531
Net loss in accordance with U.S. GAAP	**(513)**	(1,489)
Other comprehensive income:		
Change in cumulative translation adjustments	**80**	120
Comprehensive loss for the year based on U.S. GAAP	**$ (433)**	$ (1,369)

The following sets forth the computation of U.S. GAAP basic and diluted loss per share:

	2003	2002
Basic and diluted loss per share under U.S. GAAP	**$ (0.04)**	$ (0.13)
Weighted-average number of shares outstanding	**11,558**	11,860

Years ended February 28, 2003 and 2002 (in thousands, except per share amounts)

(a) For U.S. GAAP, the Company uses the intrinsic value method to account for stock-based compensation issued under its Option Plan. For fixed awards with pro rata vesting, the Company uses the straight-line method of recognizing compensation cost.

In 2003, the Company ceased the repurchase of unexercised options, at which time variable plan accounting ceased and a measurement date for valuing the options occurred. Deferred compensation at the measurement date continues to be amortized over the remaining vesting period of the options.

In 2001, an option repurchase plan was initiated whereby the option holder could request the Company repurchase, at its discretion, unexercised options for fair value consideration. Under U.S. GAAP, when a company establishes intent to settle stock awards on a cash basis, variable plan accounting is applied. Under variable plan accounting, prior to the date the option is exercised, cancelled or forfeited, the total cumulative compensation cost recorded for the stock option is based upon the intrinsic value of the options during the reporting period, the number of shares expected to be earned and the percentage of service completed. Until the measurement date, the intrinsic value may increase or decrease resulting in increases or decreases in cumulative compensation cost. The effect of such changes in cumulative compensation cost is accounted for as a change in estimate and recorded in the current reporting period.

Certain additional disclosures required under U.S. GAAP are as follows:

(b) Stock-based compensation

Had compensation cost for stock option amounts been determined under the provisions of the United States Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", which utilizes a fair value based method, the Company's net loss and loss per share would have been increased to the following pro forma amounts:

	2003		2002	
Amounts under U.S. GAAP	As reported	Pro forma	As reported	Pro forma
Net loss	**$ (513)**	**$ (1,458)**	$ (1,489)	$ (3,631)
Loss per share:				
Basic and diluted	**$ (0.04)**	**$ (0.13)**	$ (0.13)	$ (0.31)

For purposes of the pro forma disclosures, the fair value of each option grant is estimated on the date of grant using the following weighted-average assumptions used for grants in 2003 and 2002, respectively: risk-free interest rates of 4.74% and 5.05%; expected dividend yields of 0%, and 0%; volatility of 53% and 80%; and expected lives of five and four years. The weighted-average fair value of options granted during the year is $2.78 (2002 – $2.55)

(c) Disclosure of allowance for doubtful accounts

U.S. GAAP requires the disclosure of the allowance for doubtful accounts included in accounts receivable. The allowance for doubtful accounts at February 28, 2003 was $682 (2002 – $838).

(d) Disclosure of accrued liabilities

U.S. GAAP requires the separate disclosure of accrued liabilities. As at February 28, 2003, accrued liabilities were $3,580 (2002 – $4,001).

(e) Earnings before the undernoted

U.S. GAAP requires that depreciation, amortization and other income (expenses) be included in the determination of operating income and does not permit disclosure of subtotals of the amounts of earnings before these items. Canadian GAAP permits the subtotals of the amounts of earnings before these items.

(f) Statement of cash flows

Canadian GAAP permits the disclosure of a subtotal of the amount of funds provided by operations before changes in non-cash working capital items in the consolidated statements of cash flows. U.S. GAAP does not permit this subtotal to be included.

(g) Guarantees and indemnifications

Contingent liabilities in the form of letters of guarantee are provided to various third parties. At February 28, 2003, the Company had $193 in letters of guarantee outstanding.

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. Historically, the Company has made no payments relating to these indemnifications, and the Company is not subject to any pending litigation on this matter.

The Company records a liability for future warranty costs based on management's estimate of probable claims under its product warranties, which are standard warranties regarding the functionality of products in accordance with stated specifications. Actual costs incurred have not been significant. The Company reviews the need for warranty accruals based on the terms of the warranty, which vary by customer and product, and historical experience.

(h) New United States accounting pronouncements

(i) In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the year in which the Company incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement. The Company is required and plans to adopt the provisions of SFAS 143 for the year ending February 28, 2004. To accomplish this, the Company must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require the Company to gather market information and develop cash flow models. Additionally, the Company will be required to develop processes to track and monitor these obligations. Because of the effort necessary to comply with the adoption of SFAS 143, it is not practicable for management to estimate the impact of adopting this statement at the date of this report.

(ii) In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146") which is effective for exit or disposal activities that are initiated after December 31, 2002. SFAS 146 requires that a liability be recognized for exit or disposal costs only when the liability is incurred, as defined in the FASB's conceptual framework rather than when a company commits to an exit plan, and that the liability be initially measured at fair value. The Company has accounted for its realignment plan initiated after December 31, 2002 in accordance with SFAS 146.

(iii) In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires the recognition of a liability by a guarantor at the inception of certain guarantees entered into or modified after December 31, 2002. FIN 45 requires the guarantor to recognize a liability for the non-contingent component of certain guarantees; that is, it requires the recognition of a liability for the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The Company has included the disclosure requirements of FIN 45 in note 15(g). The Company has not determined the impact of the measurement requirements of FIN 45.

(iv) In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). Its consolidation provisions are applicable for all newly created entities created after January 31, 2003, and are applicable to existing variable interest entities as of the beginning of the Company's third quarter beginning September 1, 2003. With respect to entities that do not qualify to be assessed for consolidation based on voting interests, FIN 46 generally requires a company that has a variable interest(s) that will absorb a majority of the variable interest entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both to consolidate that variable interest entity. For periods prior to FIN 46's effective date, certain disclosures will be required if it is reasonably possible that the Company will have a significant variable interest in or be the primary beneficiary of a variable interest entity when FIN 46 guidance is effective. The Company expects the adoption of this standard will have no material impact on its financial position, results of operations or cash flows.

(v) In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus regarding EITF Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement's consideration should be allocated among separate units. The pronouncement is effective for the Company commencing with its 2005 fiscal year. The Company expects the adoption of this standard will have no material impact on its financial position, results of operations or cash flows.

FMC™
FINANCIAL MODELS

BOARD OF DIRECTORS & OFFICERS

BOARD OF DIRECTORS

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Fleck Management Services

J. Ian Giffen [2] [3] [5]
Independent Consultant

John A. Hughes [2] [3] [4]
Director, HEDS Management Consultants Ltd.

Stamos D. Katotakis [4] [5]
President and Chief Executive Officer,
Financial Models Company Inc.

John A. Vivash [3] [4] [5]
President and Chief Executive Officer,
Tesseract Financial Inc.

[1] Chairman of the Board and Secretary

[2] Audit Committee

[3] Human Resources and Compensation Committee

[4] Corporate Governance Committee

[5] Strategic Planning Committee

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Financial Models Corporation Limited

John S. Fennelly
Managing Director,
Financial Models Company Ltd.

Joe F. Genautis
Vice President, Software Development

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Vice President, Global Operations

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Vice President, Process Management

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