



Intrinsic Software International, Inc

**Quarterly Reports
First Quarter 2005**





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CEO

Vincent Schiralli, BA
President & COO

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Report To Shareholders



January 5, 2005

Dear Shareholder:

Intrinsyc Software is proud to have started the first quarter of fiscal 2005 with renewed and strengthened energy. Much work during the quarter went into preparing new corporate communications initiatives for 2005, which has subsequently resulted in Intrinsyc Software going live with a bold new corporate web site in January 2005. This event is a significant part of our new

corporate communications initiatives where we continue to enhance our 'brand' and positioning of our products and service offerings around our new tagline "making mobility work".

Intrinsyc Software has created a solid foundation to confidently position itself as a mobility software and services company. Our confidence stems from the success that we have had with our customers, the positive relationships that we have nurtured with our partners and the technological achievements that form an excellent foundation for exploiting our future market opportunities.

In our fiscal 2005 first quarter, the Company continued to make significant new investments in mobile software intellectual property development and marketing, which is part of the over-all 2005 operating plan that projects an over-all cash flow break-even year. The positive cash flows under the plan, which includes significant new mobile software product introductions, are necessarily somewhat back-end loaded as a result of these new product development and commercialization investments. Intrinsyc's 2005 first quarter revenue was \$3.7 million compared to \$3.5 million for the same period in fiscal 2004. Over-all margins continued improved to 46%, compared to 35% for the same period last year. The GAAP loss for the quarter was \$1.4 million which includes a stock-based compensation expense of \$152,000, which was adopted retroactively in the quarter, and a \$496,000 foreign exchange loss. Our fiscal 2005 first quarter financial results are in line with our 2005 operating plan, which also projects healthy year over year growth in our over-all revenues.

In calendar 2005, Strategy Analytics, a Boston based research and consulting firm, projects that more than 700 million mobile phones will ship, up from 450 million in 2002 and 200 million in 1999. This number is expected to grow to more than 1 billion handsets over the next two years. The Yankee Group reports that the smartphone/featurephone segment of this over-all market has grown from 20% in 2002 to 70% in 2004, and will reach more than 90% by 2006 – clearly the demand for feature rich data enabled mobile devices is growing dramatically.



We believe that the customers of these new phones are demanding a wide range of digital convergence services including both traditional business driven applications such as email, personal contact lists and calendaring, and increasingly, entertainment content such as music, video and gaming. Added to this, we believe that there will be a demand for a range of location based services that will transcend the boundaries of traditional applications and services offerings.

Mobile device manufacturers or "OEM's" are still designing and shipping the vast majority of their handsets with proprietary software. We believe that consumer demands for convergence functionality and increasing cost and development cycle time pressures will force these OEM's to move away from their proprietary solutions and toward adopting licensed 3rd party software. This situation creates opportunity for Intrinsyc.

In 2005 Intrinsyc Software is uniquely positioned to:

1. Help major OEMs make the transition from proprietary software to off-the-shelf operating system software through of our interoperability experience and expertise, and
2. Provide them with the range of software components and features that they need to address the increasing demands of network operators and their customers.


As the numbers of new mobile devices proliferate, it will become increasingly important for OEMs to have access to the rich smartphone software IP componentry and software stacks that Intrinsyc has and will create.

Intrinsyc Software today already holds a leading position in this industry, having worked with many of the world's leading mobile handset manufacturers to bring ground breaking new devices to market. By example our radio interface layer software has been licensed by leading voice/data module vendors such as Siemens and Motorola to be bundled with their products. Another example is the licensing of our uPhone, Mux and RIL software stacks in the Gizmondo gaming platform.

We are building a healthy, growing software licensing and support services business, as well as serving major OEMs, carriers, systems integrators and application vendors in the mobility space. We are helping our customers identify and create innovative solutions that make their mobile devices connect and work.

On behalf of Management and the Board of Directors, we would like to thank all of Intrinsyc Software's shareholders, stakeholders and employees for their continued support.

Sincerely,
Intrinsyc Software International, Inc.



Derek Spratt
Chief Executive Officer



Vince Schiralli
President & COO



Management's Discussion & Analysis

This discussion and analysis covers our unaudited interim consolidated financial statements for the three months ended November 30, 2004. It also provides an update to the discussion and analysis contained in our 2004 Annual Report. Management's discussion and analysis of the financial condition and results of operations of Intrinsic Software International, Inc. (the "Company") should be read in conjunction with the annual consolidated financial statements and the notes thereto that are prepared in accordance with Canadian generally accepted accounting principles, (GAAP). All amounts are presented in Canadian dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

Special Note Regarding Forward-Looking Statements

The following discussion and analysis of the financial conditions and results of operations contains forward-looking statements of the Company which involve known and unknown risks, uncertainties and other factors which may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements.

Forward looking statements include, but are not limited to, those with respect to: anticipated levels of sales, anticipated future operating results, the dependency on large project based purchase orders and their revenue recognition, the fluctuation of international currency exchange rates and the anticipated timing and progress of product development. These statements are predictions only and actual events or actual results may differ materially. Factors that could cause such actual events or actual results to differ materially from any future results expressed or implied by such forward-looking statements include, but are not limited to, our ability to maintain and expand our intellectual property position, as well as the risk factors described in this Management's Discussion and Analysis, the Notes to the Financial Statements, and our most recent Annual Information Form under the heading Trends and Uncertainties.

Overview

Revenue for the first quarter ended November 30, 2004 increased to \$3.7 million from \$3.5 million in the first quarter of fiscal 2004. Gross margin was 46% in the quarter as compared to 35% in the same quarter in the prior year largely due to improved efficiency of engineering resources.

The loss for the quarter was \$1.4 million or \$0.03 per share as compared to a loss of \$969,000 or \$0.02 per share in the first quarter of the prior year. The increase in sales and improvement in gross margin was offset by an increase in operational expenses due to the Company substantially increasing its investment and spending in its administrative infrastructure, sales and marketing force and research and development activity as it repositions itself as a software and solution provider in the enterprise mobility and wireless markets. A foreign exchange loss of \$496,000 due to the strengthening of the Canadian dollar against the US dollar was the other main factor impacting the loss.

The Company ended the first quarter with cash and cash equivalents of \$8.1 million as compared to \$4.6 million at the end of 2004. Operating activities generated an outflow of \$1.6 million compared to the operating outflow in the first quarter of 2003 of \$538,000. The increased outflow is largely due to a \$524,000 dollar increase in non-cash working capital

due to the timing of certain collections and payments. The rights offering was completed on October 28, 2004 and was fully subscribed. The rights were exercised, resulting in the issuance of a total of 11,246,743 common shares on October 28, 2004, with gross proceeds amounting to \$5,632,671 at \$0.50 per common share. Net proceeds amounted to \$5,177,921. Management is currently implementing programs, controls and procedures to better manage the Company's investment in working capital and exposure to foreign exchange risk.

RESULTS OF OPERATIONS

For the first quarter ended November 30, 2004, the Company recognized revenue of \$3.7 million, an increase of 4% compared to revenues of \$3.5 million in Q1 of fiscal 2004. Licensing comprised of \$481,000 or 13% of the revenue in the quarter compared to \$933,000 or 26% of revenue in Q1 of fiscal 2004. Services accounted for \$2.7 million or 74% of revenue compared to \$1.9 million or 53% in Q1 of fiscal 2004. Product sales in the quarter were \$461,000 or 13% of revenue compared to \$731,000 or 21% in the first quarter.

The decrease in licensing revenue from \$933,000 to \$481,000 was the result of the reorganization of the sales group and the associated impact on the sales effort. This reorganization was necessary to position the Company as a mobile software technology vendor and in turn drive future revenue growth. Product revenues also dropped by \$270,000 as a result of the repositioning of the Company and a decrease in product related R&D activities in the prior year. Service revenue increased by \$869,000 over the same period in fiscal 2004. The overall increase in service revenue is attributable to two large long term service contracts with major customers.

Gross margins on licensing revenue of 95% are significantly higher than the gross margins obtained on services revenue of 35% to 40%. As a result, the overall gross margin was a blend of these margins that is weighted toward the services margin. The overall gross margin of \$1.7 million or 46% in the quarter represents a \$440,000 increase compared to the same period in fiscal 2004. The improvement in margins is due mainly to improved utilization of engineering resources that are dedicated to service offerings.

There were two significant customers that accounted for 40% of revenue in the first quarter of fiscal 2005. In the first quarter of fiscal 2004, there was one significant customer in the quarter that accounted for 17% of revenue

Administration expenses increased by 39% to \$867,000 in the first quarter of 2005 from \$626,000 in the same quarter of the prior year. The increase over the prior year is largely as a result of an increase in staffing and increases to the allowance for doubtful accounts. The staffing changes are directly related to the Company substantially increasing its investment and spending in administrative infrastructure as it repositions itself as a software and solution provider in the enterprise mobility and wireless markets.

Marketing and sales expenses were \$816,000 in the quarter, an increase of 13% compared to \$720,000 in the first quarter of fiscal 2004. The increase is due to changes in staffing. The staffing changes are directly related to the Company substantially increasing its investment and spending in its sales and marketing force as it repositions itself as a software and solution provider in the enterprise mobility and wireless markets.

Research and development expenses of \$619,000 in the quarter increased significantly compared to \$503,000 in the first quarter of 2004. The Company has substantially increased



its investment and spending in research and development as it repositions itself as a software and solution provider in the enterprise mobility and wireless markets. TPC funding of \$38,000 represents cash receipts in excess of amounts recorded as receivable in prior periods.

A major strengthening of the Canadian dollar relative to the US dollar resulted in a foreign exchange loss of \$496,000 in the quarter compared to a loss of \$103,000 in the first quarter of fiscal 2004. The majority of the Company's revenues are denominated in US dollars.

The loss for the quarter was \$1.4 million or \$0.03 per share as compared to a loss of \$969,000 or \$0.02 per share in the first quarter of the prior year.

Quarterly Information

\$Millions	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
Revenue	\$2.7	\$3.7	\$3.0	\$3.5	\$3.8	\$4.0	\$3.8	\$3.7
Net Loss	(\$2.6)	(\$2.4)	(\$1.2)	(\$1.0)	(\$0.2)	(\$0.4)	(\$1.6)	(\$1.4)
Loss per Share	(\$0.07)	(\$0.06)	(\$0.02)	(\$0.02)	(\$0.005)	(\$0.01)	(\$0.04)	(\$0.03)

Due to the nature of product and customer mix as well as the ongoing volatility within the technology and telecommunications sector, both revenue and the net loss of the company have experienced significant fluctuations over the past 8 quarters. The company continues to develop products and solutions that have helped it remain extremely competitive in a challenging sector but cannot predict the eventual outcome. Although there have been several significant customer wins there has been no evidence of a seasonality or specific industry trend with respect to operations.

Liquidity and Capital Resources

The Company finances its operations and capital expenditures through cash generated from operations and equity financings. As at November 30, 2004, Intrinsyc had cash and cash equivalents and short term investment totaling \$8.1 million, with working capital of \$10.8 million as compared to cash and cash equivalents of \$4.6 million and working capital of \$6.8 million as at August 31, 2004. The \$5,000,000 short term investment is held in a government investment certificate which can be immediately converted to cash without penalty.

During the quarter the Company used \$1.6 million in operating activities and \$121,000 in investing activities as compared to \$538,000 used in operating activities and \$439,000 used in investing activities in the first quarter of fiscal 2004. The use of cash from operations was driven by the period loss in the quarter as well as a \$525,000 dollar increase in non-cash working capital due to the timing of certain collections and payments. Management is currently implementing controls and procedures to better manage the Company's investment in working capital. In addition, subsequent to the end of the period, the Company received \$987,000 from Technology Partnerships Canada. The Company had a balance of \$947,000 in other receivables related to this amount at the quarter end.

The rights offering was completed on October 28, 2004 and was fully subscribed. The rights were exercised, resulting in the issuance of a total of 11,246,743 common shares on October



28, 2004, with gross proceeds amounting to \$5,632,671 at \$0.50 per common share. Net proceeds amounted to \$5,177,921.

The Company continues to have no long-term liabilities, bank debt, off-balance sheet financing arrangements or significant capital leases. As at November 30, 2004, the Company had 56,233,718 common shares outstanding, 4,758,002 share options outstanding and 100,000 outstanding warrants.

The Company does not have any current plans for significant capital expenditures for the remainder of fiscal 2005. We believe that funds on hand are sufficient to fund near term operating activities. On an ongoing basis the Company will continue to investigate various financing options, including additional equity financings, to fund any new development strategies or material operating shortfalls. These options may, or may not, happen depending on the availability of funds under acceptable terms and conditions as well as the requirements that may, or may not, arise due to operating activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Intrinsyc prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions. Significant estimates include, but are not limited to, the determination of project expenditures for contracts accounted for on the percentage of completion basis, allowance for doubtful accounts, income tax valuation allowances, goodwill impairment tests, the useful lives and valuation of intangible assets, and stock-based compensation. The Company's significant accounting policies are described in Note 2 to the August 31, 2004 consolidated financial statements.

Revenue Recognition

The Company recognizes revenue from the sale of product and software licenses upon transfer of title, which generally occurs on shipment, unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. Revenue from support obligations is deferred and recognized ratably over the period of the obligation. Revenue from consulting and other services is recorded as the services are performed if there is reasonable certainty as to collectibility.

Revenues from contracts with milestone payments are recognized using the percentage of completion method based on costs incurred relative to total estimated costs to complete. Changes in estimates of contract price, total estimated costs, or estimated losses, if any, are included in the determination of estimated cumulative revenues and expenses in the period the change is determined by management.

Income Taxes

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

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company’s reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step has not been required but would be carried out if the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit’s goodwill is compared with its carrying amount to measure the amount of the impairment loss. The implied fair value of the reporting unit’s goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraphs, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit’s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the earnings statement before extraordinary items and discontinued operations.

Intangible Assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be impaired. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts.

Warranty Costs

The Company accrues warranty cost based on Management's best estimate, with reference to past experience.

Stock-based Compensation

Effective September 1, 2004, the Company adopted, on a retroactive basis, the new provision of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which requires companies to adopt the fair value based method for all stock-based awards. In accordance with the provisions of this section, the Company has accounted retroactively for all director, officer and employee ("employee") stock options granted, settled, or modified since September 1, 2002 using the fair value method. The fair value method requires the Company to expense the fair value of the employee options granted and vested, or modified during a period.

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued to employees as options were issued at the market value of the shares at the date of the grant. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options was recorded as share capital. The Company has previously disclosed the pro-forma effect of accounting for these awards under the fair value based method.

RISKS AND UNCERTAINTIES

Intrinsyc faces the risks normally associated with high growth technology companies in dynamic and changing markets.

Limited Operating History and History of Losses

The Corporation has a limited operating history and history of losses, and there can be no assurance that the Corporation's revenue will continue to grow. As at November 30, 2004, the Corporation had an accumulated deficit of approximately \$32 million. The Corporation's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Corporation to accurately predict its operating results and the results of product development and sales and marketing initiatives. There can

be no assurance that implementation of the Corporation's strategies will result in the Corporation becoming profitable.

Dependence on Market Acceptance of Mobile Devices and Inter-Operability Solutions

The market for mobile device and inter-operability software and services is emerging and the potential size of this market and the timing of its development are not well known. As a result, the Corporation's profit potential is uncertain and the Corporation's revenue may not grow as fast as the Corporation anticipates, if at all. The Corporation is dependent upon the broad acceptance by businesses and consumers of a wide variety of mobile devices as well as supporting applications, which will depend on many factors, including:

- the development of content and applications for mobile devices;
- the willingness of large numbers of businesses and consumers to use mobile devices such as smartphones, PDAs, wireless gaming consoles, and other such specialized mobile devices such as handheld medical devices and industrial data collectors to perform functions currently carried out manually or by traditional PCs, including inputting and sharing data, communicating among users and connecting to the Internet; and
- the evolution of industry standards that facilitate the distribution of content over the Internet to these devices via wired and wireless telecommunications systems, satellite or cable.

Product Development and Technological Change

The market for the Corporation's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Corporation will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and technological innovations by others. There can be no assurance that the Corporation will be successful in doing this in a timely manner or at all.

The software industry is characterized by a continuous flow of improved products which render existing products obsolete. There can be no assurance that products or technologies developed by others will not render the Corporation's products obsolete or non-competitive.

Lengthy Sales Cycle

The typical sales cycle of the Corporation's integrated solutions is lengthy (generally between 6 and 24 months), unpredictable, and involves significant investment decisions by prospective customers, as well as education of those customers regarding the use and the benefits of the Corporation's products and services. The purchase of the Corporation's products and services is often delayed while prospective customers conduct lengthy internal reviews and obtain capital expenditure approvals. Even after deciding to purchase the Corporation's products or services, the Corporation's customers tend, in some cases, to deploy the products slowly and deliberately depending on a variety of factors, including the skill level of the customer and the status of its own technology with which the Corporation's products are to integrate. As a result, the Corporation's quarterly financial results may vary significantly.

Major Industry Software Vendor Partners May Become Competitors

As the developer of Windows CE, Microsoft .NET and Symbian based software technologies, all of which the Corporation is reliant upon, Microsoft Corporation and Symbian Limited could add features to their operating systems and application product offerings that directly compete with the software products and services the Corporation provides. The ability of the Corporation's customers or potential customers to obtain software products and services directly from Microsoft Corporation and Symbian Limited that compete with the Corporation's software products and services could harm the Corporation's business.

Competition

Because of intense market competition, the Corporation may not succeed. A number of the Corporation's current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than the Corporation. Current and potential competitors may also have existing relationships with many of the Corporation's prospective customers, and prospective OEM customers may be developing products for their own use that are comparable to the Corporation's products. In addition, the Corporation expects competition to persist and intensify in the future, which could adversely affect the Corporation's ability to increase sales.

Additional Financing

The Corporation currently operates at a loss and uses cash to fund working capital. If adequate funds are not available when required or on acceptable terms, the Corporation may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Corporation will be able to obtain the additional financial resources required to compete in its markets on favourable commercial terms or at all. Any equity offering will result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests.

Third Party Manufacturing

The Corporation depends on third party manufacturing facilities to manufacture its reference design products, which reduces the Corporation's control over the manufacturing process and exposes the Corporation to a number of risks, including:

- reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- lack of guaranteed production capacity or product supply; and
- reliance on third-party manufacturers to maintain competitive manufacturing technologies.

The Corporation does not typically have supply agreements with its manufacturers and instead obtains manufacturing services on a purchase-order basis. The Corporation's manufacturers typically have no obligation to supply the Corporation with any specific product, in any specific quantity or at any specific price. If the Corporation's manufacturers were to become unable or unwilling to continue to manufacture its products in required volumes, at acceptable quality, yields and costs, or in a timely manner, the Corporation's

business might be harmed to the degree that its revenues are dependent on the sale of these reference designs. As a result, the Corporation would have to attempt to identify and qualify substitute manufacturers for its current manufacturers, which could be time consuming and difficult, and might result in unforeseen manufacturing and operations problems.

Component Suppliers

Although the Corporation out-sources its reference design manufacturing, it is responsible for procuring certain raw materials for its products directly. The Corporation's reference design products incorporate components or technologies that are only available from single or limited sources of supply. In particular, some of the Corporation's integrated circuits are available from a single source. In the past, certain integrated circuits used by the Corporation in its products have been phased out of production. When this happens, the Corporation attempts to purchase sufficient inventory to meet its needs until a substitute component can be incorporated into the Corporation's products. Nonetheless, the Corporation might be unable to purchase sufficient inventory to meet its demands, or the Corporation might incorrectly forecast its demands and purchase too many or too few components. Further, the Corporation's products use components that have in the past been subject to market shortages and substantial price fluctuations. From time to time, the Corporation has been unable to meet its orders because it was unable to purchase necessary components for its products. If the Corporation is unable to meet existing orders or to enter into new orders because of a shortage in components, it may lose net revenues and risk losing customers and harming its reputation in the marketplace.

Acquisitions

The Corporation has, and from time to time in the future may, acquire businesses, products or technologies that it believes compliment or expand its existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of the acquired business will not be profitable or that the attention of the Corporation's management will be diverted from the day-to-day operation of its business. An unsuccessful acquisition could reduce the Corporation's margins or otherwise harm its financial condition. Any acquisition could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Corporation cannot ensure that any acquisitions will be successfully completed or that, if one or more acquisitions are completed, the acquired businesses, products or technologies will generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Sales and Marketing and Strategic Alliances

If the Corporation is to become successful, it must continue to expand its sales and distribution channels and its marketing and technology alliances. There is no assurance the Corporation will be able to reach agreements with additional alliance or distribution partners on a timely basis or at all, or that these partners will devote sufficient resources to advancing the Corporation's interests.

The Corporation's strategic alliances with operating system vendors, semiconductor manufacturers and systems integrators are a key part of the Corporation's overall business strategy. The Corporation cannot, however, be certain that it will be successful in developing new strategic relationships or that the Corporation's strategic partners will view such relationships as significant to their own business or that they will continue their commitment

to the Corporation in the future. The Corporation's business, results of operation, financial condition and stock price may be materially adversely affected if any strategic partner discontinues its relationship with the Corporation for any reason. Additionally, the Corporation relies on the voluntary efforts of its strategic partners rather than compliance with contractual obligations, and there are no minimum performance requirements. Therefore, the Corporation cannot be certain that these relationships will be successful.

Management of Growth

The Corporation's growth continues to place significant demands on its management and other resources. The Corporation's future results of operations will depend in part on the ability of its officers and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Corporation's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel.

Dependence on Management

The Corporation's future success depends on the ability of the Corporation's management to operate effectively, both individually and as a group. If the Corporation were to lose the services of any management employees, the Corporation may encounter difficulties finding qualified replacement personnel and integrating them into the management group.

Potential Fluctuations in Quarterly Results

The Corporation's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Corporation and its competitors, market acceptance of new and enhanced versions of the Corporation's products and the timing of significant orders. Because the Corporation's operating expenses are based on anticipated revenues and a high percentage of the Corporation's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Corporation's common shares may be highly volatile in response to such quarterly fluctuations.

Research and Development Expenditures

If the Corporation fails to develop new products, or if the products the Corporation develops are not successful, the Corporation's business could be harmed. Even if the Corporation does develop new products which are accepted by its target markets, the Corporation cannot assure that the revenue from these products will be sufficient to justify the Corporation's investment in research and development.

International Expansion of Business Operations

The Corporation plans to increase international operations in the current fiscal year. International sales and the related infrastructure support operations carry certain risks and costs such as the administrative complexities and expenses of administering a business abroad; complications in both compliance with and also unexpected changes in regulatory requirements, foreign laws, international import and export legislation, trading policies, tariffs

and other barriers; potentially adverse tax consequences; and uncertainties of law and enforcement relating to the protection of intellectual property and unauthorized duplication of software. There can be no assurance that these factors will not be experienced in the future by the Corporation or that they will not have a material adverse impact on the Corporation's business, results of operations and financial conditions.

Foreign Exchange Risk

A substantial portion of the Corporation's sales are denominated in United States dollars and are made to United States-based customers. Because the Corporation's operations are based in Canada and the United Kingdom, the Corporation is exposed to risks associated with fluctuations in the exchange rate between the United States dollar, the British Pound and the Canadian dollar. If the Canadian dollar or British Pound rise relative to the United States dollar, the Corporation's operating results may be adversely impacted. To date, the Corporation has not entered into any transactions to hedge against gains or losses from foreign exchange fluctuations.

Intellectual Property Protection

The Corporation's ability to compete may be affected by its ability to protect its intellectual property. It relies primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect its intellectual property. While the Corporation believes that its products and technologies are adequately protected against infringement, there can be no assurance of effective protection. Monitoring and identifying unauthorized use of the Corporation's technology is difficult, and the prohibitive cost of litigation may impair the Corporation's ability to prosecute any infringement. The commercial success of the Corporation will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being made against the Corporation. The Corporation believes that it is not infringing any intellectual property rights of third parties, but there can be no assurance that such infringement will not occur. An infringement claim against the Corporation by a third party, even if it is invalid, could have a material adverse effect on the Corporation because of the cost of defending against such a claim.

Product Liability

The Corporation's license agreements with its customers typically contain provisions designed to limit the Corporation's exposure to potential product liability claims. There can be no assurance that such provisions will protect the Corporation from such claims. The Corporation does not maintain product liability insurance. A successful product liability claim brought against the Corporation could have a material adverse effect upon the Corporation's business, results of operations and prospects.

Stock Price Volatility

The market price for the common shares of the Corporation fluctuates significantly, and these fluctuations tend to be exaggerated if the trading volume is low. The market price of the common shares may rise or fall in response to announcements of technological or competitive developments, acquisitions or strategic alliances by the Corporation or its competitors, and the gain or loss by the Corporation of significant orders or broad market fluctuations.

Shareholders' Rights Plan

The Corporation has implemented a Shareholders' Rights Plan. The Shareholders' Rights Plan provides for substantial dilution to an acquirer making a take-over bid for the common shares of the Corporation unless the bid meets the requirements described in the Shareholders' Rights Plan. This could discourage a potential acquirer from making a take-over bid and make it more difficult for a third party to acquire control of the Corporation, even if such acquisition or bid would be beneficial to the Corporation's shareholders.

Outlook

In 2004, the Company continued to review and re-structured its operations, personnel, markets, customers and strategic vision. The Company continued to take significant steps to develop a strong management team, conserve cash, maintain liquidity and ensure the continuing investment in high potential, next generation technologies in the enterprise mobility and wireless markets.

For fiscal 2005 we believe the market for specialized devices and connected solutions will continue to evolve and expand. We are confident that the current strategic direction of the Company, as well as our strong suite of partners and alliances, has positioned us well to capitalize on the many opportunities we expect this growing market to present. We have reduced our cost structure significantly and have a high degree of confidence in our business model and technology vision.

The Company will continue to invest in technology, people, markets and key partnerships with significant industry participants. The Company will provide high value solutions that enable companies to seamlessly connect and manage devices and enterprise applications throughout a wide range of markets and applications.



**Consolidated Financial
Statements of
Intrinsyc Software International,
Inc.**

(Formerly Intrinsyc Software, Inc.)

Three Months ended November 30, 2004 and 2003

(Unaudited)



Intrinsyc Software International, Inc.

CONSOLIDATED BALANCE SHEETS

	Unaudited	Audited
	November 30, 2004 \$	August 31, 2004 \$
		Restated (note 2)
ASSETS		
Current		
Cash and cash equivalents	3,094,857	4,600,460
Short term investments <i>[note 4]</i>	5,000,000	—
Accounts receivable	3,758,056	3,381,271
Other receivable <i>[note 7]</i>	985,063	947,374
Inventory	225,847	277,840
Prepaid expenses	291,085	334,780
Total current assets	13,354,908	9,541,725
Capital assets	859,676	838,268
Goodwill	14,189,478	14,189,478
Intangible assets	1,339,062	1,442,848
Total assets	29,743,124	26,012,319
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,735,985	2,031,780
Deferred revenue	759,815	645,820
Future income taxes	70,948	94,600
Total current liabilities	2,566,748	2,772,200
Future income taxes	261,433	261,433
Total liabilities	2,828,181	3,033,633
Shareholders' equity		
Share capital <i>[note 8]</i>	57,505,998	52,328,077
Share purchase warrants	163,500	163,500
Contributed surplus <i>[note 2]</i>	1,232,645	1,080,546
Cumulative translation adjustment	(27,792)	(27,792)
Deficit	(31,959,408)	(30,565,645)
Total shareholders' equity	26,914,943	22,978,686
Total liabilities and shareholders' equity	29,743,124	26,012,319

See accompanying notes to unaudited interim consolidated financial statements

On behalf of the Board:



Derek Spratt, Director



Robert Gayton, Director

Intrinsyc Software International, Inc.

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

Three months ended November 30	Unaudited	Unaudited
	2004	2003
	\$	\$
		Restated (note 2)
Revenues <i>[note 3 & 9]</i>	3,685,703	3,539,236
Cost of sales	1,998,416	2,291,717
	1,687,287	1,247,519
Expenses		
Marketing and sales	815,541	720,274
Research and development	618,539	502,934
Administration	867,275	625,757
Amortization <i>[note 5]</i>	202,999	344,095
Stock-based compensation <i>[note 2]</i>	152,099	152,037
Less: Technology Partnerships Canada Funding Investment <i>[note 7]</i>	(37,689)	(161,074)
	2,618,764	2,184,023
Loss before other expense (earnings) and income taxes	931,477	936,504
Other expense (earnings)		
Foreign exchange loss	496,475	102,861
Interest expense (income)	(10,537)	(21,953)
	485,938	80,908
Loss before income taxes	1,417,415	1,017,412
Income tax expense (recovery)		
Current	—	4,923
Future	(23,652)	(53,650)
	(23,652)	(48,727)
Loss for the period	1,393,763	968,685
Deficit, beginning of period	30,565,645	27,474,062
Deficit, end of period	31,959,408	28,442,747
Loss per share (basic and diluted)	0.03	0.02
Weighted average number of shares outstanding	49,065,464	40,856,248

See accompanying notes to unaudited interim consolidated financial statements

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended November 30	Unaudited	Unaudited
	2004	2003
	\$	\$
		Restated (note 2)
OPERATING ACTIVITIES		
Loss for the period	(1,393,763)	(968,685)
Items not involving cash		
Amortization	202,999	344,095
Unrealized foreign exchange loss on contingent consideration	—	18,794
Future income taxes	(23,652)	(53,650)
Stock-based compensation	152,099	152,037
Changes in non-cash operating working capital		
Accounts receivable	(376,785)	(177,411)
Other receivable	(37,689)	358,215
Inventory	51,993	(859)
Prepaid expenses	43,695	(17,797)
Accounts payable and accrued liabilities	(295,795)	(326,270)
Deferred revenue	113,995	133,230
Cash used in operating activities	(1,562,903)	(538,301)
INVESTING ACTIVITIES		
Purchase of short term investments	(5,000,000)	—
Funds held in trust	—	28,838
Purchase of capital assets	(120,621)	(75,637)
Acquisition costs related to additional goodwill	—	(118,375)
Acquisition of intangible assets	—	(274,080)
Cash used in investing activities	(5,120,621)	(439,254)
FINANCING ACTIVITIES		
Issuance of common shares	5,632,671	—
Share issuance costs	(454,750)	—
Restricted cash	—	14,302
Cash guarantee on common shares issued	—	(14,302)
Cash provided by financing activities	5,177,921	—
Decrease in cash and cash equivalents	(1,505,603)	(977,555)
Cash and cash equivalents, beginning of period	4,600,460	6,920,785
Cash and cash equivalents, end of period	3,094,857	5,943,230
Supplementary information		
Interest paid	5,658	155
Interest received	13,964	19,125
Income taxes paid	—	4,923
Non-cash investing		
Additional consideration payable in relation to the acquisition of IEL	—	1,146,736
Additional consideration related to the acquisition of Linar Ltd.	—	7,271

See accompanying notes to unaudited interim consolidated financial statements



1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Intrinsyc Software (USA) Inc., Intrinsyc Inc., Linar Limited, and Intrinsyc Europe Limited. The Company has eliminated all significant intercompany balances and transactions. These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information, applied on a consistent basis with the audited consolidated annual financial statements for the year ended August 31, 2004, except for Note 2 with respect to the accounting for stock-based compensation. The unaudited interim consolidated financial statements do not include all information and footnote disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report for the fiscal year ended August 31, 2004.

The preparation of these unaudited interim consolidation financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows and for all periods presented, have been included. Interim results for the three-month period ended November 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year or for any other period.

2. CHANGE IN ACCOUNTING POLICY

Effective September 1, 2004, the Company adopted, on a retroactive basis, the new provision of the CICA Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*", which requires companies to adopt the fair value based method for all stock-based awards. In accordance with the provisions of this section, the Company has accounted retroactively for all director, officer and employee ("employee") stock options granted, settled, or modified since September 1, 2002 using the fair value method. The fair value method requires the Company to expense the fair value of the employee options granted and vested, or modified during a period.

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued to employees as options were issued at the market value of the shares at the date of the grant. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options was recorded as share capital. The Company has previously disclosed the pro-forma effect of accounting for these awards under the fair value based method.





2. CHANGE IN ACCOUNTING POLICY (cont'd.)

In accordance with the requirements of Section 3870, this change in accounting policy is applied retroactively and the amounts presented for prior periods have been restated for this change. The effect of this change is to increase the loss for the three-month periods ended November 30, 2004 and 2003 by \$152,099 and \$152,037, respectively. The deficit as at September 1, 2003 was increased by \$449,204 reflecting the cumulative effect of the change in accounting policy. The impact of adopting this accounting change on the November 30, 2004 consolidated financial statements is as follows:

	As previously reported \$	Adjustment \$	Restated \$
As at September 1, 2003:			
Opening deficit	(27,024,858)	(449,204)	(27,474,062)
Year ended August 31, 2004:			
Net loss	(2,460,241)	(631,342)	(3,091,583)
Contributed surplus	—	1,080,546	1,080,546
Three months ended November 30, 2003:			
Expenses	(2,031,986)	(152,037)	(2,184,023)
Net loss	(816,648)	(152,037)	(968,685)
Net earnings per common share:			
Basic and diluted	0.02	—	0.02

The Company accounts for all stock-based payments to non-employees, and employee awards that are direct awards of stock, granted on or after September 1, 2002, using the fair value based method. The Company has granted no such awards during the periods presented. The Company uses the settlement method to account for all other stock-based employee compensation awards. Consideration paid by employees on the exercise of stock options is recorded as share capital.

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

	Three months ended August 31, 2004	Three months ended November 30, 2004
Expected life (in years)	2.62	2.62
Risk-free interest rate	2.44-3.51%	2.44-3.51%
Volatility	83.8% - 165.6%	83.8% - 170.2%
Dividend yield	0.00%	0.00%

3. REVENUE RECOGNITION POLICY

The Company recognizes revenue from the sale of product and software licenses upon transfer of title, which generally occurs on shipment, unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. Revenue from support obligations is deferred and recognized ratably over the period of the obligation. Revenue from consulting and other services is recorded as the services are performed if there is reasonable certainty as to collectibility.





3. REVENUE RECOGNITION POLICY (continued)

Revenues from contracts with milestone payments are recognized using the percentage of completion method based on costs incurred relative to total estimated costs to complete. Changes in estimates of contract price, total estimated costs, or estimated losses, if any, are included in the determination of estimated cumulative revenues and expenses in the period the change is determined by management.

4. SHORT TERM INVESTMENTS

Short term investments include a \$5,000,000 term deposit bearing interest at 2.25% maturing on November 2, 2005.

5. AMORTIZATION

The aggregate amortization expense for the three months ended November 30, 2004 was \$99,212 for capital assets [2003 - \$240,308] and \$103,787 [2003 - \$103,787] for intangible assets.

6. RIGHTS OFFERING

The Company completed a rights offering for common shares on October 28, 2004 which was fully subscribed. The rights were exercised, resulting in the issuance of a total of 11,246,743 common shares on October 28, 2004, with gross proceeds amounting to \$5,632,671 at \$0.50 per common share. Net proceeds amounted to \$5,177,921.

7. GOVERNMENT ASSISTANCE

During the year ended August 31, 2004, the Company was notified that as part of an ongoing audit of the Company's claims, of which a total of \$947,374 was recorded in Other receivables, payment of current outstanding claims would be withheld until the completion of the audit, as permitted in the funding contract. Subsequent to November 30, 2004, payments totalling \$985,063 were received and applied against the Other receivable balance. The additional \$37,689 of funds received has been recorded as Technology Partnerships Canada Funding Investment on the accompanying consolidated statement of operations.

8. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value; and
Unlimited number of preference shares without par value.

Issued

	Number of common shares	Amount \$
Outstanding, August 31, 2004	44,986,975	52,328,077
Shares issued in connection with October 2004 rights offering	11,246,743	5,177,921
Outstanding, November 30, 2004	56,233,718	57,505,998





8. SHARE CAPITAL (continued)

Share option plan

The Company has reserved 11,095,774 options for issuance under its employee share option plan of which 4,758,002, have been granted and are outstanding as at November 30, 2004.

A summary of the Company's share option activity for the quarter November 30, 2004 is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price \$
Outstanding, August 31, 2004	4,614,906	1.54
Options granted	1,077,400	0.58
Options cancelled	(934,304)	2.02
Outstanding, November 30, 2004	4,758,002	1.26

The following table summarizes the share options outstanding at November 30, 2004:

Options outstanding				Options exercisable	
Range of exercise price \$	Number of shares	Weighted average remaining contractual life	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.49 - 1.21	3,617,506	3.70	0.89	1,126,357	1.09
1.32 - 2.97	852,807	1.74	2.05	680,011	2.23
3.03 - 5.30	287,689	1.20	3.51	278,521	3.52
	4,758,002	3.20	1.26	2,084,889	1.79

Share purchase warrants

As at November 30, 2004 100,000 common share purchase warrants were outstanding at a weighted average exercise price of \$3.20.



9. SEGMENTED INFORMATION

Operating segments

The Company operates in the sale and service of mobility and/or embedded hardware and software solutions and all sales of the Company's products and services are made in this segment. Management makes decisions about allocating resources based on the one operating segment.

Geographic information

Substantially all of the Company's capital assets are located in Canada. The Company earned revenues (for the three month period ended) attributed to the following countries based on the location of the customer:

	November 30, 2004 \$	November 30, 2003 \$
United States	1,216,523	1,360,153
Canada	301,711	66,053
Europe	2,004,932	1,646,353
Other	162,537	466,677
	3,685,703	3,539,236

Significant customers

Two customers accounted for 24% and 16%, respectively, of sales for the quarter ended November 30, 2004. One customer accounted for 17% of sales for the quarter ended November 30, 2003.

10. COMPARATIVE FIGURES

The Company has reclassified certain of the figures presented for comparative purposes to conform with the financial statement presentation adopted in the current period.