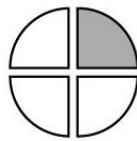




Accelerate your Vision.

Intrinsic Software International, Inc.
(Formerly: Intrinsic Software, Inc.)

Quarterly Report 2003



Third Quarter



Accelerate your Vision.

Executive Officers

Derek W. Spratt, P.Eng.
President & CEO

Vincent Schiralli
Executive VP

Chuck Leighton, B.Comm., CA
Chief Financial Officer

David B. Manuel, P.Eng.
VP, Engineering

Alan Scott, B.Sc., M.Sc., MBA
VP, Intrinsic Europe Ltd.

Board of Directors

Ronald P. Erickson, BA, MA, JD
Seattle, WA, USA

Robert J. Gayton, Ph.D., FCA
West Vancouver, BC, Canada

Vincent Luciano
Port Jefferson Station, NY, USA

Moiz Beguwala, B.Eng., MS, Ph.D., MBA
Anaheim Hills, CA, USA

Vincent Schiralli, BA
Waterloo, ON, Canada

George A. Duguay, CGA
Thornhill, ON, Canada

Derek W. Spratt, P.Eng.
Vancouver, BC, Canada

Corporate Office

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Market Information Symbol: ICS:TSX

Web Site: www.intrinsic.com

Report To Shareholders

July 2003

Dear Shareholder:

During the third quarter, fiscal 2003, Intrinsyc posted revenues of \$3.7 million and net losses of \$2.3 million. Our year-to-date revenues have increased 20% to \$10.9 million compared to the same period in 2002. Third quarter revenues were up 35% from second quarter revenues of \$2.7 million. We ended the quarter with cash and cash equivalents of \$7.8 million, no long term bank debt, and working capital of \$9.6 million.

The milestones we achieved this quarter include:

- » **Appointed a new President and CEO** – I have returned to the position of President and CEO and am committed to shifting the focus of the Company back to intellectual property based sources of recurring revenues.
- » **Appointed 2 new board members** – Vincent Schiralli and George Duguay accepted positions on the Intrinsyc board bringing over 50 years of technology industry experience. Vince has since accepted a position with Intrinsyc as Executive Vice-President and will be of immense assistance in plotting the way forward.
- » **Reduced headcount and operating costs**– We have reduced staffing levels from 108 to 81 full time employees as well as streamlined operations to refocus on core business areas and products.
- » **Amended the Intrinsyc Europe Ltd. (IEL) purchase agreement** – With significant assistance and co-operation from the previous principals we amended the purchase agreement to free up \$2.5 million of restricted cash.
- » **Signed a significant contract win with ESRI**– ESRI, the world's leading geographic systems software company licensed our J-Integra product.

As Intrinsyc's new President and CEO, I believe we successfully achieved our short term objective of addressing our corporate profitability issues in a prudent and efficient manner while preserving our intellectual property, working capital, customers and strategic partnerships. I strongly believe we now have all of the necessary ingredients and positioning to successfully move the company forward in a profitable and sustainable manner.

In previous quarters we have talked a lot about how falling chip prices and increasing power and performance, combined with off-the-shelf operating systems like Windows CE, Pocket PC, Palm, Symbian and Linux, would create a revolution in the intelligent device space, similar to the revolution that took place with the introduction of the PC in 1981. But there has been one thing missing until now, and that has been a unifying


"platform" for applications, operating systems, and chips to leverage as a whole.

I believe that an inflection point has now been reached with the introduction of first generation smart phones. These are devices which combine off-the-shelf radio modules with CPUs and operating systems to fuse PC technologies and applications with cellular phone capabilities – and preliminary indications from Intrinsyc's customers are that a wide range of specialized devices will be created for a broad range of industries and applications from these core smart phone platforms.

As a result of good timing, excellent customers and our visionary people, Intrinsyc has become a world leader in smart phone related technologies. Even more importantly, Intrinsyc has key long term business and partnership relationships with many of the world's largest smart phone technology vendors such as Microsoft and Intel, and we are currently developing new relationships we hope to announce later this year. The net result is that Intrinsyc has a unique combination of skills, technologies, partners, and customer base to build a highly successful OEM technology and services business. For the past 8 years we have built the foundations for this success, and today we are at the cusp of a range of exciting new business relationships that will see our technologies in a wide range of smart phone derived devices in the coming years.

While the world-wide economy remains soft we are seeing early signs of a general economic recovery as well as an increased interest in new productivity enhancing enterprise technologies. I passionately believe our long-term prospects remain strong in the dynamic and fast-paced specialized, intelligent device market and that our positioning will prove highly effective as the overall market recovers.

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



Derek Spratt, President & CEO, Intrinsyc Software International, Inc.



Management's Discussion & Analysis

This discussion and analysis covers our interim consolidated financial statements for the three and nine month periods ended May 31, 2003. It also provides an update to the discussion and analysis contained in our 2002 Annual Report. This discussion and analysis should be read in conjunction with the "Management Discussion and Analysis" section and the annual consolidated financial statements contained in our 2002 Annual Report.

RESULTS OF OPERATIONS

Our loss for the quarter ended May 31, 2003 was \$2,342,522 (\$0.06 per share) compared to \$2,472,629 (\$0.07 per share) for the quarter ended May 31, 2002. The current quarter operating loss was \$153,116 less than the operating loss of \$2,495,638 (\$0.07 per share) for the previous quarter ended February 28, 2003.

Revenue for the three months ended May 31, 2003 was \$3.67 million compared with \$2.49 million during the same period in fiscal 2002, an increase of 47 percent, and an increase of \$948,232 or 35 percent from the previous quarter revenue of \$2.72 million. During the quarter one customer accounted for 13 percent of recognized revenue. Year to date revenue of \$10.86 million for the nine months ended May 31, 2003 increased by \$1.80 million or 19 percent from the same period ended May 31, 2002 as the Company's products and services continue to gain acceptance in a cautious market.

Licensing revenue comprised 34 percent of the revenue in the period, up from 27 percent in the previous quarter, with services revenue amounting to 45 percent of revenue, down from 53 percent in the second quarter, and sales of products generating 21 percent of revenue, up from 20 percent in the second quarter. The gross margin on sales for the quarter was 42 percent, up from 19 percent in the second quarter of 2003 and down slightly from 45 percent in the third quarter of fiscal 2002.

General administration expenses for the quarter ended May 31, 2003 were \$531,203, a decrease of 4 percent or \$19,884 over the same period last year. Administration expenses decreased by \$75,676 or 12 percent compared to the second quarter of 2003. The decrease over previous quarter and the same period last year is a result of continuing cost reduction programs and reductions in staffing levels.

Marketing and sales expenses for the quarter ended May 31, 2003 were \$1,043,038, a decrease of 34 percent or \$539,421, compared to the same period last year. Expenses decreased by 7 percent or \$78,079 compared to the second quarter of 2003 as a result of cost reduction initiatives and streamlining the sales operations. The decrease over the same period last year is predominantly attributable to a reduction in the direct sales force and a move to foster indirect sales channels.

Research and development expenses for the quarter ended May 31, 2003 were \$891,729, a decrease of 25 percent or \$291,465, compared to the same period last year and a decrease of 6 percent or \$52,999 from the second quarter of 2003. This decrease in costs for research and development is predominantly attributable to the ongoing efforts of the Company to match R&D spending with the growth of the market. Technology Partnerships Canada investment funding has continued to aid our research and development activities and contributed \$233,750 in the third quarter as compared to \$290,675 in the preceding quarter.

Restructuring costs of \$745,129 were included in the results of the quarter ended May 31, 2003 of which \$717,871 was related to workforce reduction costs. Of this amount \$200,086 had been paid out in cash as of May 31, 2003.

Foreign exchange losses for the quarter ended May 31, 2003 were \$625,133, an increase of 77 percent or \$272,208, compared to the same period last year and an increase of 12 percent or \$64,731 from the second quarter of 2003. The majority of the Company's trade receivables, restricted funds and deferred revenue balances are denominated in US dollars or UK pounds. During the quarter, the Canadian dollar strengthened significantly relative to these two currencies producing a translation loss on these assets which was partially offset by payables denominated in US dollars.

Liquidity and Capital Resources

Cash and cash equivalents increased to \$7.8 million as of May 31, 2003, compared to \$7.1 million as at February 28, 2003 and working capital increased to \$9.6 million as of May 31, 2003 from \$8.9 million as of February 28, 2003.

Revenues allocated to future support activities, the delivery of future services, or future product deliveries are deferred until such time as the customer obligation is met. As of the quarter ended May 31, 2003, \$323,247 has been deferred compared to \$398,403 as of February 28, 2003.

Guaranteed loan notes of \$2.31 million are payable with the guarantee supported by restricted cash balances of \$2.31 million.

The Company continues to have no long-term liabilities or bank debt.

The Company's operating activities resulted in cash outflows of \$2.00 million for the three months ended May 31, 2003 compared to cash inflows of \$413,406 during the same period in 2002. Cash of \$2.69 was provided in the quarter from investments, net of cash used in capital assets acquisition, compared to cash used of \$201,399 during the same period last year. Capital assets purchased in the quarter were primarily computer software. Restricted cash was reduced by \$2.71 million during the quarter as part of the previously announced re-structuring of the NMI Electronics Ltd. (NMI) acquisition earn out. In addition, \$1.96 million was accrued for the contingent consideration payable for the NMI acquisition based on certain revenue targets having been achieved by NMI.



Accelerate your Vision.

Consolidated Financial Statements of Intrinsic Software International, Inc.

(Formerly Intrinsic Software, Inc.)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

(Expressed in Canadian dollars)

(Unaudited)

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Consolidated Balance Sheets
(Expressed in Canadian dollars)

	May 31, 2003	August 31, 2002
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,782,050	\$ 9,226,932
Funds held in trust	455,711	517,700
Restricted cash (note 4)	2,311,657	-
Accounts receivable	3,232,095	5,159,369
Other receivable	667,032	1,256,418
Inventory	860,468	753,155
Prepaid expenses	86,882	263,609
	<u>15,395,895</u>	<u>17,177,183</u>
Funds held in trust	-	520,461
Restricted cash (note 4)	-	5,132,238
Capital assets	1,294,742	1,472,962
Goodwill (note 7(a))	11,643,038	6,784,821
Other assets (note 7(b))	1,847,619	2,384,122
	<u>\$ 30,181,294</u>	<u>\$ 33,471,787</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,174,456	\$ 3,428,276
Deferred revenue	323,247	439,050
Future income taxes	179,600	179,600
Guaranteed loan note (note 4)	2,311,657	-
Loan note (note 4)	804,271	-
	<u>5,793,231</u>	<u>4,046,926</u>
Future income taxes	374,683	535,633
Shareholders' equity:		
Share capital (note 6(b))	48,303,710	48,697,555
Shares to be issued (note 4)	1,608,533	-
Share purchase warrants	140,000	140,000
Cumulative translation adjustment	(58,204)	28,910
Deficit	(25,980,659)	(19,977,237)
	<u>24,013,380</u>	<u>28,889,228</u>
	<u>\$ 30,181,294</u>	<u>\$ 33,471,787</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Ronald Erickson, Chairman



Robert Gayton, Director

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Consolidated Statements of Operations and Deficit
(Unaudited)

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2003	2002	2003	2002
Revenues	\$ 3,666,339	\$ 2,487,785	\$ 10,861,056	\$ 9,063,025
Cost of sales	2,128,367	1,012,956	6,952,318	3,692,599
	1,537,972	1,474,829	3,908,738	5,370,426
Expenses:				
Administration	531,203	551,087	1,792,782	1,313,942
Marketing and sales	1,043,038	1,582,459	3,515,361	3,466,146
Research and development	891,729	1,183,194	3,145,332	2,998,363
Amortization	321,949	410,321	969,442	1,092,175
Government assistance (note 8)	(233,750)	-	(1,034,425)	-
Restructuring costs (note 9)	745,129	-	745,129	-
	3,299,298	3,727,061	9,133,621	8,870,626
Loss before other earnings (expense) and income taxes	1,761,326	2,252,232	5,224,883	3,500,200
Other earnings (expense):				
Interest earned	42,116	122,887	231,450	298,732
Foreign exchange loss	(625,133)	(352,925)	(1,095,951)	(211,384)
	(583,017)	(230,038)	(864,501)	87,348
Loss before income taxes	2,344,343	2,482,270	6,089,384	3,412,852
Income tax expense (recovery):				
Current	51,829	20,359	74,988	68,577
Future	(53,650)	(30,000)	(160,950)	(90,000)
	(1,821)	(9,641)	(85,962)	(21,423)
Loss for the period	2,342,522	2,472,629	6,003,422	3,391,429
Deficit, beginning of period	23,638,137	17,121,083	19,977,237	16,202,283
Deficit, end of period	\$ 25,980,659	\$ 19,593,712	\$ 25,980,659	\$ 19,593,712
Loss per share	\$ 0.06	\$ 0.07	\$ 0.16	\$ 0.10
Weighted average number of shares outstanding	38,283,965	34,049,265	38,283,965	33,400,691

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsic Software, Inc.)
 Consolidated Statements of Cash Flows
 (Unaudited)

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2003	2002	2003	2002
Cash provided by (used in):				
Operations:				
Loss for the period	\$ (2,342,522)	\$ (2,472,629)	\$ (6,003,422)	\$ (3,391,429)
Items not involving cash:				
Amortization	321,949	410,321	969,442	1,092,175
Foreign exchange	(55,520)	-	(87,115)	-
Future income taxes	(53,650)	(30,000)	(160,950)	(90,000)
Changes in non-cash operating working capital:				
Funds held in trust (current)	38,461	392,270	61,989	348,092
Accounts receivable	(127,642)	1,480,674	1,927,274	(622,148)
Other receivable	99,115	-	589,386	-
Prepaid expenses	96,827	61,004	176,727	70,658
Inventory	204,381	(27,860)	(107,313)	(56,442)
Accounts payable and accrued liabilities	(105,911)	496,334	(1,833,012)	(1,004,349)
Deferred revenue	(75,156)	103,292	(115,803)	(561,107)
	(1,999,668)	413,406	(4,582,797)	(4,214,550)
Investments:				
Purchase of capital assets	(19,103)	(307,816)	(254,717)	(513,208)
Deferred acquisition costs	-	(67,695)	-	(67,695)
Restricted cash	2,710,072	-	2,820,581	-
Funds held in trust (long-term)	-	174,112	520,461	187,705
	2,690,969	(201,399)	3,086,325	(393,198)
Financing:				
Issuance of common shares for cash:				
Options	-	3,600	51,590	314,334
Warrants	-	-	-	3,607,005
Special warrants	-	-	-	9,234,692
Payment of share purchase warrants issuance cost	-	(60,258)	-	(60,258)
Repayment of obligation under capital lease	-	(10,472)	-	(38,027)
	-	(67,130)	51,590	13,057,746
Increase (decrease) in cash and cash equivalents	691,301	144,877	(1,444,882)	8,449,998
Cash and cash equivalents, beginning of period	7,090,749	23,370,220	9,226,932	15,065,099
Cash and cash equivalents, end of period	\$ 7,782,050	\$ 23,515,097	\$ 7,782,050	\$ 23,515,097
Supplementary information:				
Interest paid	\$ 73	\$ -	\$ 1,462	\$ -
Interest received	41,382	-	248,706	-
Income taxes paid	19,968	-	49,968	18,385
Non-cash investing activities:				
Contingent consideration payable (note 4)	1,959,293	-	4,724,461	-
Share price guarantee (note 6(b))	-	-	445,435	-

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Notes to Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

1. Basis of presentation:

The accompanying unaudited 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. 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 as at May 31, 2003 and for all periods presented, have been included. Interim results for the three-month and nine-month periods ended May 31, 2003 are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

Amended Articles of Incorporation were filed under the Canadian Business Corporations Act on May 1, 2003 to change the name of the Company from Intrinsyc Software, Inc. to Intrinsyc Software International, Inc.

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Intrinsyc Software (USA) Inc., Intrinsyc Inc., Linar Ltd. and Intrinsyc Europe Ltd., formerly NMI Electronics Ltd. The Company has eliminated all significant intercompany balances and transactions. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Company's annual report for the fiscal year ended August 31, 2002.

2. Significant accounting policies:

These interim consolidated financial statements have been prepared in accordance with the same accounting policies and methods as the annual consolidated financial statements of the Company, except as described below and in note 3.

(a) 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 identifiable 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.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Notes to Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

2. Significant accounting policies (continued):

(a) Goodwill (continued):

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 Company currently has one reporting unit and the first step in the impairment test was completed by February 28, 2003. The transitional steps that have been performed are described in note 3(a).

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, if any. 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 first paragraph, 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.

(b) Stock-based compensation:

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 Company discloses the pro forma effect of accounting for these awards under the fair value based method (see note 5).

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Notes to Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

3. Changes in accounting policies:

(a) Goodwill and other intangible assets:

In August 2001, the Accounting Standards Board of the CICA issued Handbook Section 3062, Goodwill and Other Intangible Assets. Under Section 3062, goodwill and other intangible assets having indefinite lives are not amortized and are tested for impairment at least annually. Intangible assets with definite lives are amortized over their estimated useful lives. The transitional requirements of Section 3062 required the Company to have assessed by February 28, 2003 whether there was an indication that goodwill was impaired at September 1, 2002. The Company identified one reporting unit and determined the fair value of the reporting unit and compared it to its carrying value. As the fair value of the reporting unit exceeded its carrying value at September 1, 2002, there was no indication of goodwill impairment at that date.

The Company has adopted Section 3062 effective September 1, 2002. As of the date of adoption, the Company had unamortized goodwill in the amount of \$6,784,821, which is no longer being amortized. This change in accounting policy resulted in a reduction in amortization expense related to goodwill of \$505,707 for the nine months ended and \$168,569 for the three months ended May 31, 2003. In accordance with the requirements of Section 3062, this change in accounting policy is not applied retroactively and the amounts presented for prior periods have not been restated for this change. The earnings and earnings per share before amortization of goodwill for all periods presented are as follows:

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2003	2002	2003	2002
Loss for the period	\$ 2,342,522	\$ 2,472,629	\$ 6,003,422	\$ 3,391,429
Amortization of goodwill	-	(163,533)	-	(384,233)
Loss before amortization of goodwill	\$ 2,342,522	\$ 2,309,096	\$ 6,003,422	\$ 3,007,196
Loss per share:				
Before amortization of goodwill	\$ 0.06	\$ 0.07	\$ 0.16	\$ 0.09

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Notes to Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

3. Changes in accounting policies (continued):

(b) Stock based compensation plans:

In December 2001, the Accounting Standards Board of the CICA issued Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. Section 3870 is effective for stock-based compensation issued by the company on or after September 1, 2002, and is not required to be applied retroactively. The Company is not required to record compensation expense for stock-based compensation awards granted to employees, except for employee awards that are direct awards of stock, call for settlement in cash or other assets, or that call for settlement by the issuance of equity instruments. The adoption of the new standard has had no impact on the figures presented.

4. Acquisition:

On June 26, 2002, the Company acquired all the outstanding shares of Intrinsyc Europe Ltd., ("IEL"), formerly NMI Electronics Ltd., a U.K.-based company that is a developer of Windows CE-based products, intelligent device applications and smart phone solutions. The acquisition has been accounted for using the purchase method of accounting and the results of operations have been consolidated since the date of acquisition. The original purchase agreement contained provisions for additional consideration subject to the achievement of certain performance targets during each of the 12 month periods ended June 26, 2003 and 2004. During the three months ended May 31, 2003, the Company entered into discussions with the vendors to amend the original agreements, and the parties consummated an amendment for the additional consideration related to the 12 month period ended June 26, 2003.

The performance criteria for the 12 month period ended June 26, 2003, specified in the amended agreement has been achieved, and, consequently, additional consideration of \$4,724,461 is payable and has been recorded as additional goodwill for the nine months ended May 31, 2003, of which, \$1,959,293 has been recorded in the three months ended May 31, 2003. The \$4,724,461 is payable as follows: shares with a fair value at the date of issuance of \$1,608,533, of which shares with a value of \$1,206,400 are to be issued on June 26, 2003 and the remainder of shares with a value of \$402,133 will be issued on May 31, 2005, \$2,311,657 (£1,028,500) of guaranteed loan notes, and a \$804,271 loan note, both repayable on demand after November 30, 2003. Restricted cash is held to guarantee the ability of the Company to meet the guaranteed loan note obligation, while the Company has entered into a general security agreement with the vendors to provide security on all future obligations related to the purchase agreement, as amended.

Additional consideration of up to \$2,311,657 (£1,028,500) of loan notes, \$1,371,037 (£610,000) of cash, and common shares having a fair value at the issuance date of \$2,412,800 are contingently payable or issuable upon the achievement of certain revenue targets during the 12 months ended June 26, 2004. The Company is currently negotiating with the vendors to amend these terms.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Notes to Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

5. Stock-based compensation:

No compensation expense has been recognized for the Company's fixed stock option plan. Had compensation expense for the Company's stock options granted on or after September 1, 2002 been determined based on the fair value at the applicable grant dates, the Company's loss would have been increased to the pro forma amount indicated below. The increase in loss would not change the disclosed loss per common share amount.

	Three months ended May 31, 2003	Nine months ended May 31, 2003
Loss:		
As reported	\$ 2,342,522	\$ 6,003,422
Pro forma	2,402,715	6,160,493

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions for the three and nine months ended May 31, 2003: risk-free interest rate of 3.21% and 3.31%, dividend yield of 0%, expected life of 2.62 years, and volatility of 135% and 100%.

6. Share capital:

(a) Authorized:

100,000,000 common shares without par value
10,000,000 preference shares without par value

(b) Issued:

	Number of shares	Amount
Outstanding, August 31, 2002	38,216,965	\$ 48,697,555
Shares issued for cash on:		
Exercise of options	67,000	51,590
Share price guarantee (i)	-	(445,435)
Outstanding, May 31, 2003	38,283,965	\$ 48,303,710

INTRINSYC SOFTWARE INTERNATIONAL, INC.

(Formerly Intrinsyc Software, Inc.)

Notes to Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

6. Share capital (continued):

(b) Issued (continued):

- (i) Pursuant to the Linar Ltd. acquisition on January 26, 2001, the Company agreed to a floor price cash guarantee on the common shares equal to 75% of the issuance price of \$3.20 per share to January 26, 2003. The consideration paid did not change the amount recognized as purchase price and, therefore, goodwill, but is recorded as a reduction in the assigned value of shares previously issued.

(c) Stock options:

A summary of the Company's stock option activity for the nine months ended May 31, 2003 is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Outstanding, August 31, 2002	4,471,837	\$ 2.26
Options granted	1,574,975	1.09
Options exercised	(67,000)	(0.77)
Options cancelled	(1,145,014)	(1.34)
Outstanding, May 31, 2003	4,834,798	\$ 1.85

The following table summarizes the share options outstanding at May 31, 2003:

Range of exercise price	Options outstanding			Options exercisable	
	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.49 - \$ 1.21	2,270,467	3.83 years	\$ 1.12	899,494	\$ 1.18
\$ 1.26 - \$ 2.97	1,856,435	2.12 years	\$ 2.02	1,469,075	\$ 2.05
\$ 3.01 - \$5.30	707,896	2.60 years	\$ 3.72	524,726	\$ 3.80
	4,834,798	2.99 years	\$ 1.85	2,893,295	\$ 2.10

As at May 31, 2003, the total number of options reserved for issuance is 11,095,774.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

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(Unaudited)
(Expressed in Canadian dollars)

Three months ended May 31, 2003 and 2002
Nine months ended May 31, 2003 and 2002

6. Share capital (continued):

(d) Warrants:

As at May 31, 2003, 391,699 common share purchase warrants are outstanding at a weighted average exercise price of \$2.79, with 291,699 warrants expiring July 29, 2003 and 100,000 warrants expiring January 26, 2006.

7. Goodwill and other assets:

(a) The changes in the carrying amount of goodwill for the three and nine months ended May 31, 2003 are as follows:

Balance, September 1, 2002	\$ 6,784,821
Goodwill related to contingent consideration (note 4)	1,050,544
Balance, November 30, 2002	7,835,365
Goodwill related to contingent consideration (note 4)	1,714,624
Expenses on acquisition	133,756
Balance, February 28, 2003	9,683,745
Goodwill related to contingent consideration (note 4)	1,959,293
Balance, May 31, 2003	\$ 11,643,038

(b) Other assets as at May 31, 2003 are as follows:

	Gross carrying amount	Accumulated amortization	Total
Intellectual property	\$ 3,070,000	\$ 1,222,381	\$ 1,847,619

There have been no additions of intangible assets for the periods presented. The aggregate amortization expense for the three and nine months ended May 31, 2003 was \$178,833 and \$536,503, respectively.

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 Three months ended May 31, 2003 and 2002
 Nine months ended May 31, 2003 and 2002

8. Government assistance:

Government assistance represents funding received or receivable under the Technology Partnership Canada ("TPC") program. The amount recorded is net of a 15% commission that is payable to a consultant for services performed in securing the funding.

9. Restructuring costs:

On April 30, 2003, the Company announced and implemented a business restructuring through a workforce reduction. The Company has substantially completed the implementation of the restructuring at May 31, 2003.

Workforce reduction charges of \$717,871 were related to the cost of severance and benefits associated with 22 employees notified of termination. Statement of claims have been filed with respect to certain of these terminations, however, management has recorded their best estimate of the potential liability and does not believe that the actual amounts will vary significantly from the estimates.

Other charges include provision for professional and other fees in connection with the restructuring activities. The following table summarizes the activity related to the restructuring and other charges at May 31, 2003.

	Charge at April 30, 2003	Cumulative drawdowns		Provision balance May 31, 2003
		Cash	Non-cash	
Workforce reduction	\$ 717,871	\$ 200,086	\$ -	\$ 517,785
Other	27,258	-	-	27,258
	\$ 745,129	\$ 200,086	\$ -	\$ 545,043
Current				\$ 545,043

10. Comparative figures:

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.