

Consolidated Financial Statements of

Intrinsyc Software, Inc.

For the Nine Months ended May 31, 2001 and 2000 (Unaudited)

Intrinsic Software, Inc.
Consolidated Balance Sheets

As at	31-May-01	31-Aug-00
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,483,352	\$ 7,188,100
Accounts receivable	2,450,443	688,468
Inventory	451,885	326,606
Prepaid expenses	141,734	63,590
	16,527,414	8,266,764
Funds held in trust (note 3)	1,508,600	-
Capital assets	1,101,654	724,546
Other assets (note 3)	2,876,056	-
	5,486,310	724,546
	\$ 22,013,724	\$ 8,991,310

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,496,045	\$ 689,735
Deferred revenue	907,229	132,972
Obligation under capital lease	58,198	15,943
	2,461,472	838,650
Shareholders' equity:		
Share capital (note 4)	35,497,010	20,620,778
Share purchase warrants (note 3)	140,000	-
Deficit	(16,084,758)	(12,468,118)
	19,552,252	8,152,660
Commitments and contingencies (note 3)		
	\$ 22,013,724	\$ 8,991,310

See accompanying notes to consolidated financial statements

On behalf of the Board:

"Derek Spratt"

Derek Spratt - Director

"Robert Gayton"

Robert Gayton - Director

Intrinsyc Software, Inc.Consolidated Statements of Operations and Deficit
(Unaudited)

	Three months ended		Nine months ended	
	31-May-01	31-May-00	31-May-01	31-May-00
Revenues	\$ 3,384,148	\$ 958,505	\$ 7,093,738	\$ 1,782,348
Cost of Sales	1,233,656	383,402	3,563,543	1,050,766
	<u>2,150,492</u>	<u>575,103</u>	<u>3,530,195</u>	<u>731,582</u>
Expenses:				
Administration	714,116	371,770	2,122,536	977,713
Marketing and sales	1,392,266	607,834	3,164,181	1,600,232
Research and development	875,117	353,486	1,995,803	712,516
	<u>2,981,499</u>	<u>1,333,090</u>	<u>7,282,520</u>	<u>3,290,461</u>
Loss before amortization and interest income	831,007	757,987	3,752,325	2,558,879
Amortization	305,868	28,867	517,924	79,292
Interest income	<u>(161,762)</u>	<u>(53,166)</u>	<u>(653,609)</u>	<u>(63,130)</u>
Net loss	975,113	733,688	3,616,640	2,575,041
Deficit, beginning of the period	15,109,645	10,911,193	12,468,118	9,069,840
Deficit, end of the period	\$ 16,084,758	\$ 11,644,881	\$ 16,084,758	\$ 11,644,881
Loss per share	\$ 0.03	\$ 0.03	\$ 0.12	\$ 0.12
Weighted average number of shares outstanding	32,229,321	24,201,606	30,856,256	22,171,422

See accompanying notes to consolidated financial statements

Intrinsyc Software, Inc.

Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended		Nine months ended	
	31-May-01	31-May-00	31-May-01	31-May-00
Cash provided by (used in):				
Cash flows from operating activities:				
Net loss	\$ (975,113)	\$ (733,688)	\$ (3,616,640)	\$ (2,575,041)
Items not involving cash:				
Amortization	305,868	28,867	517,924	79,292
Expenses settled with the issuance of common shares:				
For services rendered	-	-	-	294,711
For compensation expense	-	-	-	46,238
Changes in non-cash operating working capital	(125,913)	(137,883)	(553,805)	112,739
Cash flows used in operating activities	(795,158)	(842,704)	(3,652,521)	(2,042,061)
Cash flows from financing activities:				
Issuance of common shares for cash:				
Private placements	-	-	-	900,000
Options	-	1,171,137	301,377	1,995,186
Warrants	-	323,127	1,133,746	1,346,368
Special warrants	-	(41,106)	12,407,509	2,724,137
Repayment of obligation under capital lease	(8,915)	(3,986)	(16,886)	(11,957)
Cash flows provided by operating activities	(8,915)	1,449,172	13,825,746	6,953,734
Cash flows from investing activities:				
Acquisition of Linar Ltd., net of \$466,318 cash acquired (note 3)	-	-	(1,793,914)	-
Contingent consideration for the acquisition of Linar Ltd. (note 3)	-	-	(1,508,600)	-
Purchase of capital assets	(193,299)	(95,923)	(575,459)	(169,490)
Cash flows used in investing activities	(193,299)	(95,923)	(3,877,973)	(169,490)
Increase (decrease) in cash and cash equivalents	(997,372)	510,545	6,295,252	4,742,183
Cash and cash equivalents, beginning of the period	14,480,724	4,433,418	7,188,100	201,780
Cash and cash equivalents, end of the period	\$ 13,483,352	\$ 4,943,963	\$ 13,483,352	\$ 4,943,963
Supplementary information:				
Interest paid	\$ -	\$ 2,589	\$ -	\$ 4,824
Non-cash financing activities:				
Common shares issued for services rendered	-	-	-	294,711
Common shares issued for employee compensation	-	-	-	46,238
Acquisition of capital asset funded by capital lease	59,141	-	59,141	31,886
Non-cash investing activities:				
Common shares issued for acquisition of Linar Ltd. (note 3)	-	-	1,033,600	-
Warrants issued on acquisition of Linar Ltd. (note 3)	-	-	140,000	-

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 1

Nine months ended May 31, 2001 and 2000 (Unaudited)

1. Organization:

The Company was incorporated on August 31, 1992 under the laws of Alberta and continued under the Company Act (British Columbia) on July 19, 1995. The Company provides an integrated framework of embedded hardware, software and service solutions for creating, linking and managing Internet Devices and Information Appliances.

2. Significant accounting policies:

The accompanying financial information does not include all disclosures required under generally accepted accounting principles for annual statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our fiscal 2000 annual report. These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada on a basis consistent with those for the most recent year ended August 31, 2000. The company adopted certain new accounting policies during the interim period which are listed below. A reconciliation of material measurement differences between these principles and accounting principles generally accepted in the United States of America is shown in note 5. These statements should be read in conjunction with the Company's most recent annual financial statements.

(a) Intellectual property:

Intellectual property is recorded at cost and is amortized on a straight-line basis over three years.

(b) Goodwill:

Goodwill consists of the excess of cost over the assigned values of net identifiable assets acquired and is being amortized on a straight-line basis over five years.

(c) Comparative figures:

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

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 2

Nine months ended May 31, 2001 and 2000 (Unaudited)

3. Acquisition:

On January 26, 2001, the Company acquired all of the outstanding shares of Linar Ltd., a U.K.-based company which provides Java-based enterprise connectivity software. 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 Company's interest in the net assets acquired at fair values is as follows:

Cash	\$	466,318
Current assets		469,189
Intellectual property		1,200,000
Current liabilities		(638,163)
Goodwill		1,936,488
		<hr/>
	\$	3,433,832

Consideration:

323,000 common shares at a price of \$3.20 per share	\$	1,033,600
Cash consideration (U.S.\$1,500,000)		2,250,000
100,000 warrants to purchase common shares with an exercise price of \$3.20 per share, expiring on January 26, 2006		140,000
Cash expenses on acquisition		10,232
		<hr/>
	\$	3,433,832

The common shares issued are subject to a holding period and may not be traded until January 26, 2002. 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 for a period of two years until January 26, 2003. In addition, contingent consideration for the acquisition may also become payable at a future date as follows:

- (a) payments of up to U.S. \$500,000 based on a percentage of potential future revenues from specific sales opportunities, and
- (b) cash payments of up to U.S. \$1,000,000 (CDN. \$1,508,600) may become payable upon the achievement of specified performance criteria by a certain employee until January 26, 2004. The cash is held in trust to be paid upon the achievement of the criteria. Warrants to purchase 25,000 common shares of the Company are also issuable with an exercise price equal to fair market value on January 26, 2003 if specified criteria have been met.

As at May 31, 2001, other assets include intellectual property and goodwill with a net book value of \$1,066,668 and \$1,809,388 respectively, totaling \$2,876,056 relating to the acquisition.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 3

Nine months ended May 31, 2001 and 2000 (Unaudited)

4. 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, 1999	19,678,543	\$ 9,804,387
Shares issued for cash on:		
Private placement	900,000	900,000
Exercise of special warrants, net of share issue costs	3,000,000	5,438,493
Exercise of warrants	1,212,595	1,838,244
Exercise of options	2,582,081	2,298,705
Shares issued in consideration of:		
Services rendered	323,859	294,711
Compensation for employees	39,207	46,238
Outstanding, August 31, 2000	27,736,285	20,620,778
Shares issued for cash on:		
Exercise of warrants	536,400	789,996
Exercise of options	293,233	267,825
Outstanding, November 30, 2000 (Unaudited)	28,565,918	21,678,599
Shares issued for cash on:		
Exercise of warrants	312,500	343,750
Exercise of options	27,903	33,552
Exercise of special warrants, net of \$1,092,491 in share issue costs	3,000,000	12,407,509
Shares issued in consideration of:		
Acquisition of Linar Ltd. (note 3)	323,000	1,033,600
Outstanding, February 28 and May 31, 2001 (Unaudited)	32,229,321	\$ 35,497,010

(c) Special warrants:

During the three months ended November 30, 2000, the Company completed a private placement of 3,000,000 Special Warrants at \$4.50 per Special Warrant, for gross proceeds of \$13,500,000. Each Special Warrant entitles the holder to one common share and one-half of one non-transferable share purchase warrant. The Special Warrants were exercised in December 2000, resulting in the issuance of 3,000,000 common shares of the Company and 1,500,000 non-transferable share purchase warrants. Each whole warrant is exercisable into one common share at \$5.85 to March 13, 2002. The Company also granted to the Agent an Agent's Warrant to acquire, without additional consideration, an Agent's Compensation Option. Each option entitles the Agent to purchase 300,000 Special Warrants at \$4.50 per Special Warrant until March 13, 2002.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 4

Nine months ended May 31, 2001 and 2000 (Unaudited)

4. Share capital (continued):

(c) Special warrants (continued):

During the three months ended February 28, 2001, the Company issued 100,000 warrants as part of the acquisition for Linar Ltd. (note 3). Each warrant is exercisable into one common share at \$3.20 per share. One-third of the warrants shall vest and become exercisable on January 26, 2002. Thereafter, the warrants shall vest and become exercisable as to 1/12th of the total number of warrants per quarter, over 24 months, subject to the terms of the acquisition.

5. United States generally accepted accounting principles:

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which differ, in certain respects, from accounting principles generally accepted in the United States of America and from requirements promulgated by the United States Securities and Exchange Commission ("SEC"). Material measurement differences to these consolidated financial statements are as follows:

(a) Reconciliation of consolidated statements of operations:

	Three months ended May 31, 2001	Three months ended May 31, 2000
Net loss in accordance with Canadian GAAP	\$ 975,113	\$ 733,688
Share options granted to employees and contractors ⁽¹⁾	184,913	458,750
Loss determined under United States GAAP	\$ 1,160,026	\$ 1,192,438
Loss per share under United States GAAP	\$ 0.04	\$ 0.05

	Nine months ended May 31, 2001	Nine months ended May 31, 2000
Net loss in accordance with Canadian GAAP	\$ 3,616,640	\$ 2,575,041
Share options granted to employees and contractors ⁽¹⁾	236,262	922,396
Loss determined under United States GAAP	\$ 3,852,902	\$ 3,497,437
Loss per share under United States GAAP	\$ 0.12	\$ 0.16

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 5

Nine months ended May 31, 2001 and 2000 (Unaudited)

5. United States generally accepted accounting principles (continued):

(1) Under United States GAAP, the repricing of stock options results in such options being considered to be variable in nature and compensation expense being recorded equal to changes in the market value of the underlying common shares. The variable plan accounting has been applied prospectively for market value changes subsequent to June 30, 2000. In addition, compensation expense is recognized to the extent that options are granted having an exercise price less than the market price of the underlying share on the date of grant.

(b) Loss per share:

Basic loss per share is calculated under Canadian and United States GAAP using the same weighted average number of common shares outstanding. Diluted loss per share under United States GAAP is based on the weighted average number of common shares and dilutive common share equivalents outstanding. When dilutive, stock options and warrants are included as share equivalents using the Treasury Stock method. For the periods presented, diluted loss per share is the same as the basic calculation, as all stock options and warrants outstanding were anti-dilutive.

(c) Reconciliation of consolidated balance sheets:

	May 31, 2001	August 31, 2000
Share capital in accordance with Canadian GAAP	\$ 35,497,010	\$ 20,620,778
Accumulated share options compensation expense	2,616,826	2,380,564
Share capital in accordance with United States GAAP	\$ 38,113,836	\$ 23,001,342
Deficit in accordance with Canadian GAAP	\$ (16,084,758)	\$ (12,468,118)
Accumulated share options compensation expense	(2,616,826)	(2,380,564)
Deficit in accordance with United States GAAP	\$ (18,701,584)	\$ (14,848,682)