

Consolidated Financial Statements of

INTRINSYC SOFTWARE, INC.

Three months ended November 30, 2000 and 1999 (Unaudited)

Year ended August 31, 2000

INTRINSYC SOFTWARE, INC.

Consolidated Balance Sheets

	November 30, 2000	August 31, 2000
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,037,648	\$ 7,188,100
Funds held in trust (note 5(e))	6,261,000	—
Accounts receivable	1,047,152	688,468
Inventory	513,069	326,606
Prepaid expenses	133,851	63,590
	<u>20,992,720</u>	<u>8,266,764</u>
Capital assets (note 5)	909,022	724,546
	<u>\$ 21,901,742</u>	<u>\$ 8,991,310</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,199,100	\$ 689,735
Deferred revenue	421,656	132,972
Obligation under capital lease (note 4)	11,957	15,943
	<u>1,632,713</u>	<u>838,650</u>
Shareholders' equity:		
Share capital (note 5)	21,678,599	20,620,778
Special warrants (note 5(e))	12,435,691	—
Deficit	(13,845,261)	(12,468,118)
	<u>20,269,029</u>	<u>8,152,660</u>
Commitments and contingencies (note 7)		
Subsequent events (note 10)		
	<u>\$ 21,901,742</u>	<u>\$ 8,991,310</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Derek Spratt, Director

_____ Robert Gayton, Director

INTRINSYC SOFTWARE, INC.

Consolidated Statements of Operations and Deficit
(Unaudited)

Three months ended November 30, 2000 and 1999

	2000	1999
Revenues	\$ 1,651,889	\$ 316,970
Cost of sales	1,075,295	248,220
	576,594	68,750
Expenses:		
Administration	951,358	516,570
Marketing and sales	714,708	429,439
Research and development	467,790	171,428
	2,133,856	1,117,437
Loss before interest income	1,557,262	1,048,687
Interest income	180,119	4,909
Net loss	1,377,143	1,043,778
Deficit, beginning of year	12,468,118	9,069,840
Deficit, end of year	\$ 13,845,261	\$ 10,113,618
Loss per share	\$ 0.05	\$ 0.05
Weighted average number of shares outstanding	28,338,847	20,692,736

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE, INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three months ended November 30, 2000 and 1999

	2000	1999
Cash provided by (used in):		
Cash flows from operating activities:		
Net loss	\$ (1,377,143)	\$ (1,043,778)
Items not involving cash:		
Amortization	68,437	22,360
Expenses settled with the issuance of common shares:		
For services rendered	–	294,711
For compensation expense	–	28,038
Changes in non-cash operating working capital	182,641	362,794
Cash flows used in operating activities	(1,126,065)	(335,875)
Cash flows from investing activities:		
Purchase of capital assets	(252,913)	(25,302)
Cash flows used in investing activities	(252,913)	(25,302)
Cash flows from financing activities:		
Issuance of common shares for cash:		
Private placement	–	900,000
Options	267,825	6,600
Warrants	789,996	–
Repayment of obligation under capital lease	(3,986)	(3,986)
Special warrants, net of funds held in trust of \$6,261,000	6,174,691	–
Cash flows used in financing activities	7,228,526	902,614
Increase in cash and cash equivalents	5,849,548	541,437
Cash and cash equivalents, beginning of year	7,188,100	201,780
Cash and cash equivalents, end of year	\$ 13,037,648	\$ 743,217
Supplementary information:		
Interest paid	\$ –	\$ 1,007
Income taxes paid	–	–
Non-cash financing activities:		
Common shares issued for services rendered	–	295,711
Common shares issued for employee compensation	–	28,038
Acquisition of capital asset funded by capital lease	–	31,886

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Three months ended November 30, 2000 and 1999 (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:

These 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. A reconciliation of material measurement differences between these principles and accounting principles generally accepted in the United States of America is shown in note 12.

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Intrinsyc Software (USA) Inc. The Company has eliminated all significant intercompany balances and transactions.

(b) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

(c) Cash equivalents:

Cash equivalents include short-term deposits, which are all highly marketable securities with term to maturity of three months or less when acquired. Short-term deposits are valued at cost.

(d) Inventory:

Inventory is valued at the lower of cost and net realizable value with cost being determined on a first-in-first-out basis. Cost includes cost of materials.

(e) Research and development:

The Company expenses research costs as they are incurred. Development costs are expensed as incurred unless they meet certain specified criteria for deferral and amortization. No development costs have been deferred in the current period as the criteria for deferral were not met.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 2

Three months ended November 30, 2000 and 1999 (Unaudited)

2. Significant accounting policies (continued):

(f) Capital assets:

Capital assets are initially recorded at cost. Amortization is subsequently provided on the following basis:

Assets	Basis	Rate
Computers and equipment	declining-balance	30%
Computer software	straight-line	3 years
Furniture and fixtures	declining-balance	20%

Leasehold improvements are amortized on a straight-line basis over the shorter of the initial lease term or their expected useful life.

(g) Revenue recognition:

The Company generally recognizes product revenue upon transfer of title, which generally occurs on shipment of product, 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.

(h) Warranty costs:

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

(i) Share issue costs:

The Company reduces the value of consideration assigned to shares issued by the costs, net of income tax recoveries, of issuing the shares.

(j) Impairment of capital assets:

The Company monitors the recoverability of capital assets, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when the Company determines that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to the undiscounted future cash flows. To November 30, 2000, the Company has not recorded any such impairment losses.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 3

Three months ended November 30, 2000 and 1999 (Unaudited)

2. Significant accounting policies (continued):

(k) Translation of foreign currencies:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect on the transaction date. Monetary items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

(l) Share compensation:

The Company has one share-based compensation plan, which is described in note 5. No compensation expense is recognized for this plan when share options are issued to employees. Any consideration paid by employees on exercise of share options is credited to share capital.

Shares issued for non-cash consideration are valued at the average fair value of the Company's stock for the ten day period prior to the date the obligation for issuance occurs.

(m) Loss per share:

Loss per share has been calculated based on the weighted average number of common shares outstanding during the reporting period. Fully diluted per share amounts have not been disclosed as the effect of outstanding options and warrants is anti-dilutive.

(n) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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 in the period that includes the substantial enactment date. Future income tax assets are evaluated and if their realization is not considered "more likely than not", a valuation allowance is provided.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 4

Three months ended November 30, 2000 and 1999 (Unaudited)

3. Capital assets:

November 30, 2000 (Unaudited)	Cost	Accumulated amortization	Net book value
Computers and equipment	\$ 812,558	\$ 292,420	\$ 520,137
Computer software	341,097	58,936	282,161
Furniture and fixtures	101,611	19,822	81,789
Leasehold improvements	26,921	1,987	24,934
	\$ 1,282,187	\$ 373,165	\$ 909,022

August 31, 2000	Cost	Accumulated amortization	Net book value
Computers and equipment	\$ 675,340	\$ 254,323	\$ 421,017
Computer software	256,324	33,520	222,804
Furniture and fixtures	81,387	16,165	65,222
Leasehold improvements	16,223	720	15,503
	\$1,029,274	\$ 304,728	\$ 724,546

As at November 30, 2000, an asset under a capital lease with a cost of \$31,886 (August 31, 2000 - \$31,886) and accumulated amortization of \$10,075 (August 31, 2000 - \$8,354) is included in capital assets.

4. Obligation under capital lease:

The Company has a capital lease for a trade show booth. As at November 30, 2000, minimum lease payments are as follows:

2001	\$ 13,407
Less an amount representing interest at 11%	(1,450)
Current portion of obligation under capital lease	\$ 11,957

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 5

Three months ended November 30, 2000 and 1999 (Unaudited)

5. 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

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 6

Three months ended November 30, 2000 and 1999 (Unaudited)

5. Share capital (continued):

(c) Share option plan:

Under the terms of the Company's employee share option plan, the Board of Directors may grant options to employees, officers and directors. The plan provides for the granting of options at the average fair market value of the Company's stock ten days before the grant date. Options granted before May 11, 1999 generally vest over two and one-half years with the first 10% vesting at the first quarter anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. Options granted after May 11, 1999 generally vest over three years with the first 1/12 vesting at the first quarter anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five year term. The Company has reserved 6,076,138 options for issuance under its employee share option plan.

During the 2000 fiscal year, the exercise price related to 607,000 options previously granted was amended.

A summary of the Company's share option activity for the year ended August 31, 2000 and the three months ended November 30, 2000, presenting on a retroactive basis the effect of the option repricing, is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Outstanding, August 31, 1999	5,084,235	1.05
Options granted	1,985,200	2.95
Options exercised	(2,582,081)	0.89
Options cancelled	(758,522)	1.27
Outstanding, August 31, 2000	3,728,832	\$ 2.09
Options granted	173,250	5.30
Options exercised	(293,233)	0.93
Options cancelled	(159,713)	1.43
Outstanding, November 30, 2000 (Unaudited)	3,449,136	\$ 2.38

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 7

Three months ended November 30, 2000 and 1999 (Unaudited)

5. Share capital (continued):

(c) Share option plan (continued):

The following table summarizes the share options outstanding at November 30, 2000:

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
\$ 0.59 - \$ 1.21	937,146	2.55 years	\$ 1.13	774,977	\$ 1.14
\$ 1.26 - \$ 2.97	1,267,650	3.79 years	1.72	494,217	1.37
\$ 3.05 - \$ 5.15	1,244,340	4.48 years	4.00	206,663	3.74
	3,449,136	3.70 years	\$ 2.38	1,475,857	\$ 1.58

(d) Share purchase warrants:

A summary of the Company's share purchase warrants for the years ended August 31, 2000 and the three months ended November 30, 2000, is as follows:

	Outstanding warrants	
	Number of warrants	Weighted average warrant price
Outstanding, August 31, 1999	2,005,322	\$ 1.43
Warrants granted	2,250,000	2.16
Warrants exercised	(1,212,595)	1.52
Warrants cancelled	(718,827)	1.71
Outstanding, August 31, 2000	2,323,900	2.01
Warrants exercised	(536,400)	1.47
Outstanding, November 30, 2000	1,787,500	\$ 2.17

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 8

Three months ended November 30, 2000 and 1999 (Unaudited)

5. Share capital (continued):

(e) Special warrants:

During fiscal 2000, the Company issued 3,000,000 Special Warrants (the "Special Warrants") for \$2.00 per Special Warrant. Pursuant to an agency agreement, the Company paid the Agent a commission of 7% of the gross proceeds from the sale of the Special Warrants. The Company also granted to the Agent a non-assignable warrant (the "Agent's Warrant") to acquire an option (the "Agents" Compensation Option"). The Agent's Compensation Option will entitle the Agent to purchase 300,000 shares, at a price per share of \$2.00 until February 28, 2001 and thereafter at a price of \$2.30 until February 28, 2002.

Upon exercise of each Special Warrant, the holder was issued one common share and one half of one warrant (the "Warrant"). These Special Warrants were exercised in the year. Each whole Warrant entitles the holder to acquire one common share at a price per share of \$2.50 until February 28, 2002.

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 of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant is exercisable into one common share at \$5.85 to February 25, 2002. Of the total proceeds, \$6,261,000 is held in trust and will be released on the receipt of the final prospectus by the British Columbia Securities Commission, the Quebec Securities Commission, the Alberta Securities Commission and the Ontario Securities Commission. The Company incurred financing fees of \$1,064,309 on the private placement. On December 8, 2000, a receipt was issued for the final prospectus.

6. Income taxes:

The composition of the Company's future tax assets at November 30, 2000 and August 31, 2000 are as follows:

	November 30, 2000	August 31, 2000
	(Unaudited)	
Future tax assets:		
Accounting amortization in excess of tax	\$ 195,000	\$ 195,000
Loss carry forwards	5,550,470	4,970,000
Share issue costs	214,000	214,000
	5,959,470	5,379,000
Less valuation allowance	(5,959,470)	(5,379,000)
	\$ -	\$ -

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 9

Three months ended November 30, 2000 and 1999 (Unaudited)

6. Income taxes (continued):

The future tax assets have not been recognized in these consolidated financial statements as management does not consider it more likely than not that such assets will be realized in the carry forward period.

As at November 30, 2000, the Company has non-capital loss carry forwards aggregating approximately \$12,445,000 available to reduce taxable income otherwise calculated in future years. By fiscal year ending August 31, these losses expire as follows:

2001	\$	86,000
2002		352,000
2003		607,000
2004		1,900,000
2005		3,200,000
2006		1,700,000
2007		3,300,000
2008		1,300,000
		<hr/>
	\$	12,445,000

7. Commitments and contingencies:

The Company has lease commitments for office premises and equipment with remaining terms of up to five years. The minimum lease payments in each of the next five fiscal periods ending August 31, is approximately as follows:

Nine months ended August 31, 2001	\$	374,000
Year ended August 31,		
2002		472,000
2003		470,000
2004		470,000
2005		470,000
		<hr/>
	\$	2,256,000

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 10

Three months ended November 30, 2000 and 1999 (Unaudited)

8. Financial instruments and risk management:

(a) Fair values:

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value due to their short maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, the carrying value of the obligation under capital lease approximates fair value.

(b) Concentrations of business risk:

The Company maintains substantially all of its cash and cash equivalents with major financial institutions in Canada. Deposits held with banks may exceed the amount of insurance provided on such deposits. However, as the Company can generally redeem these deposits upon demand, the Company bears minimal risk.

The Company outsources the manufacturing of its products to a third party. The Company is therefore dependent upon the development and deployment by third parties of its manufacturing abilities. The inability of any supplier or manufacturer to fulfill supply requirements could impact future results.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. Management is of the opinion that any risk of accounting loss is significantly reduced due to the financial strength of the Company's major customers. The Company performs on-going credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding indebtedness that is denominated in Canadian dollars. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company mitigates this risk by denominating many of its payment obligations in U.S. dollars.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 11

Three months ended November 30, 2000 and 1999 (Unaudited)

9. Segmented information:

(a) Operating segments:

The Company operates in the sale and service of 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.

(b) Geographic information:

All of the Company's capital assets are located in Canada. The Company earned revenues attributed to the following countries based on the location of the customer:

	2000	1999
United States	\$ 869,369	\$ 219,336
Canada	359,043	14,596
Other	423,477	83,038
	\$ 1,651,889	\$ 316,970

(c) Significant customers:

Major customers representing 10% or more of total sales include:

	2000	1999
Customer A	366,434	less than 10%
Customer B	335,899	less than 10%
Customer C	275,595	less than 10%
Customer D	less than 10%	\$128,320

10. Subsequent events:

Subsequent to November 30, 2000, the Company:

- Issued 17,687 common shares for proceeds of \$22,375 from the exercise of options.
- Granted employee stock options to purchase 110,000 common shares at an exercise price of \$3.55 per share, expiring on December 6, 2005.
- As described in note 6(e), the Company obtained a receipt for a final prospectus which qualifies the distribution of 3,000,000 units of the Company issuable upon the exercise of outstanding special warrants. Funds held in trust were released to the Company from escrow. On exchange of the units, the Company issued 3,000,000 common shares and 1,500,000 warrants having an exercise price of \$5.85, expiring on March 13, 2002 for no additional consideration. In addition, the Company issued 300,000 Agent warrants having an exercise price of \$4.50, expiring on March 13, 2002.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 12

Three months ended November 30, 2000 and 1999 (Unaudited)

11. 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:

	November 30, 2000	November 30, 1999
Net loss in accordance with Canadian GAAP	\$ 1,377,143	\$ 1,043,778
Share options granted to employees ⁽¹⁾	(174,025)	4,897
Loss determined under United States GAAP	\$ 1,203,118	\$ 1,048,675
Loss per share under United States GAAP	\$ 0.04	\$ 0.05

⁽¹⁾ Under United States GAAP, the repricing of stock options such as described in note 5(c) 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 years presented, diluted loss per share is the same as the basic calculation, as all stock options and warrants outstanding were anti-dilutive.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 13

Three months ended November 30, 2000 and 1999 (Unaudited)

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

(c) Reconciliation of consolidated balance sheets:

	November 30, 2000	August 31, 2000
Share capital in accordance with Canadian GAAP	\$ 21,678,599	\$ 20,620,778
Accumulated share options compensation expense	2,206,539	2,380,564
Share capital in accordance with United States GAAP	\$ 23,885,138	\$ 23,001,342
Deficit in accordance with Canadian GAAP	\$ (13,845,261)	\$ (12,468,118)
Accumulated share options compensation expense	(2,206,539)	(2,380,564)
Deficit in accordance with United States GAAP	\$ (16,051,800)	\$ (14,848,682)