

Consolidated Financial Statements of

INTRINSYC SOFTWARE, INC.

Three Months ended February 28, 2001 and 2000 (Unaudited)

Year ended August 31, 2000

INTRINSYC SOFTWARE, INC.

Consolidated Balance Sheets

As at	28-Feb-01	31-Aug-00
Assets	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	\$ 14,480,724	\$ 7,188,100
Accounts receivable	2,120,842	688,468
Inventory	414,341	326,606
Prepaid expenses	206,485	63,590
	<u>17,222,392</u>	<u>8,266,764</u>
Funds held in trust (note 3)	1,508,600	-
Capital assets	960,428	724,546
Other assets (note 3)	3,070,710	-
	<u>5,539,738</u>	<u>724,546</u>
	<u>\$ 22,762,130</u>	<u>\$ 8,991,310</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,575,533	\$ 689,735
Deferred revenue	651,260	132,972
Obligation under capital lease	7,972	15,943
	<u>2,234,765</u>	<u>838,650</u>
Shareholders' equity:		
Share capital (note 4)	35,497,010	20,620,778
Share purchase warrants (note 3)	140,000	
Deficit	(15,109,645)	(12,468,118)
	<u>20,527,365</u>	<u>8,152,660</u>
Commitments and contingencies (note 3)		
	<u>\$ 22,762,130</u>	<u>\$ 8,991,310</u>

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		Six months ended	
	28-Feb-01	29-Feb-00	28-Feb-01	29-Feb-00
Revenues	\$ 2,057,701	\$ 506,871	\$ 3,709,590	\$ 823,841
Cost of Sales	1,202,986	369,333	2,391,662	667,402
	854,715	137,538	1,317,928	156,439
Expenses:				
Administration	735,198	258,759	1,444,488	613,987
Marketing and sales	1,054,572	510,242	1,830,235	1,005,864
Research and development	641,057	171,167	1,176,580	387,906
	2,430,827	940,168	4,451,303	2,007,757
Loss before interest income	1,576,112	802,630	3,133,375	1,851,318
Interest income	311,728	5,055	491,847	9,965
Net loss	1,264,384	797,575	2,641,527	1,841,353
Deficit, beginning of the period	13,845,261	10,113,618	12,468,118	9,069,840
Deficit, end of the period	\$ 15,109,645	\$ 10,911,193	\$ 15,109,645	\$ 10,911,193
Loss per share	\$ 0.04	\$ 0.04	\$ 0.09	\$ 0.08
Weighted average number of shares outstanding	31,977,383	21,711,762	30,156,060	21,784,855

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended		Six months ended	
	28-Feb-01	29-Feb-00	28-Feb-01	29-Feb-00
Cash provided by (used in):				
Cash flows from operating activities:				
Net loss	\$ (1,264,384)	\$ (797,575)	\$ (2,641,527)	\$ (1,841,353)
Items not involving cash:				
Amortization	143,619	28,064	212,056	50,424
Expenses settled with the issuance of common shares:				
For services rendered	-	-	-	294,711
For compensation expense	-	18,200	-	46,238
Changes in non-cash operating working capital	(610,533)	(112,171)	(427,892)	250,623
Cash flows used in operating activities	(1,731,298)	(863,482)	(2,857,363)	(1,199,357)
Cash flows from financing activities:				
Issuance of common shares for cash:				
Private placement	-	-	-	900,000
Options	33,552	817,449	301,377	824,049
Warrants	343,750	1,023,241	1,133,746	1,023,241
Special warrants	6,232,818	2,765,243	12,407,509	2,765,243
Repayment of obligation under capital lease	(3,985)	(3,985)	(7,971)	(7,971)
Cash flows provided by financing activities	6,606,135	4,601,948	13,834,661	5,504,562
Cash flows from investing activities:				
Acquisition of Linar Ltd., net of \$466,318 cash acquired (note 3)	(1,793,914)	-	(1,793,914)	-
Contingent consideration for the acquisition of Linar Ltd. (note 3)	(1,508,600)	-	(1,508,600)	-
Purchase of capital assets	(129,247)	(48,265)	(382,160)	(73,567)
Cash flows used in investing activities	(3,431,761)	(48,265)	(3,684,674)	(73,567)
Increase in cash and cash equivalents	1,443,076	3,690,201	7,292,624	4,231,638
Cash and cash equivalents, beginning of the period	13,037,648	743,217	7,188,100	201,780
Cash and cash equivalents, end of the period	\$ 14,480,724	\$ 4,433,418	\$ 14,480,724	\$ 4,433,418
Supplementary information:				
Interest paid	\$ -	\$ 1,229	\$ -	\$ 2,236
Income taxes paid	-	-	-	-
Non-cash financing activities:				
Common shares issued for services rendered	-	-	-	294,711
Common shares issued for employee compensation	-	18,200	-	46,238
Acquisition of capital asset funded by capital lease	-	-	31,886	31,886
Non-cash investing activities:				
Common shares issued for acquisition of Linar Ltd. (note 3)	1,033,600	-	1,033,600	-
Warrants issued on acquisition of Linar Ltd. (note 3)	140,000	-	140,000	-

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Six months ended February 28, 2001 and February 29, 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:

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

Six months ended February 28, 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 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 the criteria are met.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 3

Six months ended February 28, 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, 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

Six months ended February 28, 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 February 28, 2001	Three months ended February 29, 2000
Net loss in accordance with Canadian GAAP	\$ 1,264,384	\$ 797,575
Share options granted to employees and contractors ⁽¹⁾	225,387	458,750
Loss determined under United States GAAP	\$ 1,489,771	\$ 1,256,325
Loss per share under United States GAAP	\$ 0.05	\$ 0.06

	Six months ended February 28, 2001	Six months ended February 29, 2000
Net loss in accordance with Canadian GAAP	\$ 2,641,527	\$ 1,841,353
Share options granted to employees and contractors ⁽¹⁾	51,357	463,647
Loss determined under United States GAAP	\$ 2,692,884	\$ 2,305,000
Loss per share under United States GAAP	\$ 0.09	\$ 0.11

(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

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements, page 5

Six months ended February 28, 2001 and 2000 (Unaudited)

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.

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

(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:

	February 28, 2001	August 31, 2000
Share capital in accordance with Canadian GAAP	\$ 35,497,010	\$ 20,620,778
Accumulated share options compensation expense	2,431,921	2,380,564
Share capital in accordance with United States GAAP	\$ 37,928,931	\$ 23,001,342
Deficit in accordance with Canadian GAAP	\$ (15,109,645)	\$ (12,468,118)
Accumulated share options compensation expense	(2,431,921)	(2,380,564)
Deficit in accordance with United States GAAP	\$ (17,541,566)	\$ (14,848,682)