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REPORT TO SHAREHOLDERS

July 2002

Dear Shareholder:

During the third quarter of 2002, revenue was \$2.5 million, compared with \$3.4 million during the same period in 2001, and \$3.4 million in the previous quarter. The net loss for the quarter was \$2.5 million, compared to \$975,000 in the previous quarter. On a year to date basis, revenue was \$9.1 million, \$2.0 million higher than for the first nine months of fiscal 2001.

In the quarter, new orders, shipments and revenue milestones were affected by customer delays, the late introduction of new technologies by major vendors, and ongoing pressure on customers to reduce capital spending. Despite this, Intrinsyc's list of Fortune 500 customers continues to expand and demand for products and solutions remains strong—all reinforcing the strength of Intrinsyc's business model.

Intrinsyc is on track for a record year, and although we had planned for better results in the quarter, we expect to achieve a revenue target of between \$13.5-\$14.5 million for fiscal 2002. Our backlog of customers is stronger than ever, and continued execution of our business plan will generate positive revenue growth for Intrinsyc in the quarters ahead.

The milestones achieved in the quarter include:

Acquisition of NMI Electronics – The signing of a term sheet to acquire NMI Electronics and the subsequent closing of the deal on June 26, 2002.

Avnet Applied Computing distribution agreement – Agreement expands Intrinsyc's indirect sales force with the addition of 150 sales managers who have been trained on Intrinsyc's products and solutions.

Announced two significant contracts totaling \$1.1 million – Two Fortune 500 companies, one in the electronics and the other in the consumer device market, licensed our Cerf technologies and purchased on-going engineering and support services.

Successful entry in the growing telematics market – Intrinsyc sold CerfCruiser device development platforms to key automotive clients around the world.

Leveraged the Oracle9i JDeveloper Network – Intrinsyc's J-Integra product is being endorsed and sold on the Oracle Technology Network (OTN), which has more than 2 million members.

We have proven that our business is healthy and that a strong demand for our products exists. Strategically, we are focused on aggressively growing the company and I remain confident about the long-term viability of Intrinsic. As always, profitability is a key goal and we will continue to balance long-term initiatives with short-term profitability.

On behalf of the Intrinsic Board of Directors, we thank our customers and shareholders for their continued support during the quarter and look forward to providing long-term value for years to come.

A handwritten signature in black ink, appearing to read "Neil McDonnell". The signature is fluid and cursive, with the first name "Neil" and last name "McDonnell" clearly distinguishable.

Neil McDonnell
President & CEO
Intrinsic Software, 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, 2002. It also provides an update to the discussion and analysis contained in our 2001 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 2001 Annual Report.

Significant Transactions

On June 26, 2002, the Company acquired all of the outstanding shares of NMI Electronics Ltd. ("NMI") for an initial cash consideration of CAD\$6.4 million, with subsequent payments on the first and second anniversaries of the deal signing, contingent upon NMI achieving certain performance-oriented criteria. Founded in 1987, NMI is a privately owned company in the United Kingdom, with the owner/directors actively involved and leading the business. NMI is a leader in the development of Windows CE-based products, PDA and smart phone solutions, and a Microsoft Windows Embedded Gold Partner.

Subsequent to May 31, 2002, the 4,166,700 special warrants were automatically exercised for 4,166,700 common shares.

Results of Operations

Our loss for the quarter ended May 31, 2002 was \$2,472,629 (\$0.07 per share) compared to \$975,113 (\$0.03 per share) for the quarter ended May 31, 2001. The current quarter operating loss was \$1,879,732 greater than the operating loss of \$592,897 for the previous quarter ended February 28, 2002 (\$0.02 per share).

Revenue for the three months ended May 31, 2002 was \$2.49 million compared with \$3.38 million during the same period in fiscal 2001, a decrease of 26 percent, and a decrease of \$939,786 or 27 percent from the previous quarter revenue of \$3.43 million. During the quarter there was one customer that accounted for more than 10 percent of recognized revenue. Year to date revenue for the nine months ended May 31, 2002 increased by \$1.97 million or 28 percent from the same period ended May 31, 2001.

Licensing revenue comprised 43 percent of the revenue in the period, up from 34 percent in the second quarter of 2002, with services revenue amounting to 46 percent of revenue, even with 46 percent in the second quarter, and sales of products generating 11 percent of revenue, down from 20 percent in the second quarter. The gross margin on sales for the quarter decreased to 45.1 percent from 58.7 percent in the second quarter of 2002 and was down from 63.5 percent in the third quarter of fiscal 2001. The decline in gross margin over the quarter is primarily attributable to lower service revenue operating on a fixed cost base. For the nine months ended May 31, 2002 gross margin was 56.9 percent compared to 49.8 percent for the same period ended May 31, 2001.

General administration expenses for the quarter ended May 31, 2002 were \$551,087, a decrease of 22.8 percent or \$163,029, over the same period last year. Administration expenses increased by \$205,523 or 59.5 percent compared to the second quarter of 2002. This increase in costs from the preceding quarter is primarily attributable to the growth of our operations, increasing investor relations costs and foreign exchange losses due to the strengthening in the Canadian dollar compared with the U.S. dollar.

Marketing and sales expenses for the quarter ended May 31, 2002 were \$1,582,459, an increase of 13.7 percent or \$190,193, compared to the same period last year. Expenses increased by 52.1 percent or \$541,972 compared to the second quarter of 2002 as the result of growth in operations, sales commissions and tradeshow activity as well as costs associated with growing the indirect sales distribution channels.

Research and development expenses for the quarter ended May 31, 2002 were \$1,183,194, an increase of 35.2 percent or \$308,077, compared to the same period last year and an increase of 30 percent or \$273,788 from the second quarter of 2002. This increase in costs for research and development is predominantly attributable to the growth of our staff and operations.

Interest income earned on cash and short-term balances was \$122,887 for the quarter, down by 24% or \$38,875 from \$161,762 in the same period last year and up more than 52% or \$46,387 from \$76,500 in the second quarter of 2002. The increase in the quarter is primarily attributable to higher average cash balances coupled with maximizing return on investments through more effective treasury management initiatives.

Liquidity and Capital Resources

Cash and cash equivalents increased to \$23.5 million as of May 31, 2002, compared to \$23.4 million as at February 28, 2002 and working capital decreased to \$24.2 million as of May 31, 2002 from \$26.6 million as of February 28, 2002. This decrease is attributable to various capital expenditures during the quarter and a partial reclassification of the funds held in trust from current to non-current.

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, 2002, \$547,594 has been deferred compared to \$444,302 as of February 28, 2002.

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

The Company's operating activities resulted in cash inflows of \$413,406 for the three months ended May 31, 2002 compared to cash outflows of \$795,432 during the same period a year ago. Cash of \$307,816 was used in the quarter to acquire capital assets, compared to \$193,025 during the same period last year. Capital assets purchased in the quarter were primarily computer equipment and a new fully integrated financial system package. Cash of \$67,695 was used during the quarter to pay costs associated with the acquisition of NMI, as discussed in Note 5. Financing activities in the quarter generated cash outflows of \$67,130 compared to an outflow of \$8,915 during the same period last year.

**CONSOLIDATED FINANCIAL STATEMENTS OF
INTRINSYC SOFTWARE, INC.**

Nine months ended May 31, 2002 and 2001 (Unaudited)
Year ended August 31, 2001

CONSOLIDATED BALANCE SHEETS

(Unaudited)

2002	May 31, 2001	August 31,
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,515,097	\$ 15,065,099
Funds held in trust	169,608	517,700
Accounts receivable	2,181,522	1,559,374
Inventory	354,687	298,245
Prepaid expenses	199,774	270,432
	26,420,688	17,710,850
Funds held in trust	848,040	1,035,745
Capital assets	1,316,595	1,103,820
Other assets	2,835,306	3,469,353
	\$ 31,420,629	\$ 23,319,768

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 1,629,192	\$ 2,633,541
Deferred revenue	547,594	1,108,701
Obligation under capital lease	-	38,027
	2,176,786	3,780,269

Shareholders' equity:

Share capital (note 3)	39,523,121	35,601,782
Share purchase warrants (note 3(d))	140,000	140,000
Special warrants (note 3(e))	9,174,434	-
Deficit	(19,593,712)	(16,202,283)
	29,243,843	19,539,499

\$ 31,420,629 \$ 23,319,768

Subsequent events (notes 3(e) and 5)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board: "William Yu" William Yu, Director

 "Robert Gayton" Robert Gayton, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited)

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2002	2001	2002	2001
Revenues	\$ 2,487,785	\$ 3,384,148	\$ 9,063,025	\$ 7,093,738
Cost of sales	1,365,881	1,233,656	3,903,983	3,563,543
	1,121,904	2,150,492	5,159,042	3,530,195
Expenses:				
Administration	551,087	714,116	1,313,942	2,122,536
Marketing and sales	1,582,459	1,392,266	3,466,146	3,164,181
Research and development	1,183,194	875,117	2,998,363	1,995,803
Amortization	380,321	305,868	1,002,175	517,924
	3,697,061	3,287,367	8,780,626	7,800,444
Loss before interest income	2,575,157	1,136,875	3,621,584	4,270,249
Interest income	122,887	161,762	298,732	653,609
Loss before income taxes	2,452,270	975,113	3,322,852	3,616,640
Income taxes	20,359	-	68,577	-
Loss for the period	2,472,629	975,113	3,391,429	3,616,640
Deficit, beginning of period	17,121,083	15,109,645	16,202,283	12,468,118
Deficit, end of period	\$ 19,593,712	\$ 16,084,758	\$ 19,593,712	\$ 16,084,758
Loss per share	\$ 0.07	\$ 0.03	\$ 0.10	\$ 0.12
Weighted average number of shares outstanding	34,049,265	32,229,321	33,400,691	30,856,256

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2002	2001	2002	2001
Cash provided by (used in):				
Operations:				
Loss for the period	\$ (2,472,629)	\$ (975,113)	\$ (3,391,429)	\$ (3,616,640)
Items not involving cash:				
Amortization	380,321	305,868	1,002,175	517,924
Changes in non-cash				
operating working capital:				
Reallocate funds held in trust	392,270	-	348,092	-
Accounts receivable	1,480,674	(329,601)	(622,148)	(1,648,680)
Prepaid expenses	61,004	64,751	70,658	(78,144)
Inventory	(27,860)	(37,545)	(56,442)	(125,280)
Accounts payable	496,334	(89,720)	(1,004,349)	806,310
Deferred revenue	103,292	255,696	(561,107)	660,962
Linar opening working capital	-	10,232	-	(168,974)
	413,406	(795,432)	(4,214,550)	(3,652,522)
Investments:				
Acquisition of Linar Ltd., net of \$466,318 cash acquired	-	-	-	(1,793,914)
Contingent consideration for the acquisition of Linar Ltd.	-	-	-	(1,508,600)
Deferred acquisition costs	(67,695)	-	(67,695)	-
Reallocate funds held in trust	174,112	-	187,705	-
Purchase of capital assets	(307,816)	(193,025)	(513,208)	(575,458)
	(201,399)	(193,025)	(393,198)	(3,877,972)
Financing:				
Issuance of common shares for cash:				
Options	3,600	-	314,334	301,377
Warrants	-	-	3,607,005	1,133,746
Special warrants	-	-	9,234,692	12,407,509
Payment of share purchase warrants issuance cost	(60,258)	-	(60,258)	-
Repayment of obligation				
under capital lease	(10,472)	(8,915)	(38,027)	(16,886)
	(67,130)	(8,915)	13,057,746	13,825,746
Increase (decrease) in cash and cash equivalents	144,877	(997,372)	8,449,998	6,295,252
Cash and cash equivalents, beginning of period	23,370,220	14,480,724	15,065,099	7,188,100
Cash and cash equivalents, end of period	\$ 23,515,097	\$ 13,483,352	\$ 23,515,097	\$ 13,483,352

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Supplementary information:				
Interest paid	\$ -	\$ -	\$ -	\$ -
Income Taxes paid	-	-	18,385	-
Non-cash financing activities:				
Acquisition of capital asset funded by capital lease	-	59,141	-	59,141
Non-cash investing activities:				
Common shares issued for acquisition of Linar Ltd.	-	-	-	1,033,600
Warrants issued on acquisition of Linar Ltd.	-	-	-	140,000

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements (Unaudited)

Nine months ended May 31, 2002 and 2001.

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 prepared in accordance with Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at May 31, 2002 and for all periods presented, have been included. Interim results are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Intrinsyc Software (USA) Inc., Intrinsyc Inc., and Linar 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 unaudited consolidated 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, 2001.

2. Significant accounting policies:

These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

3. 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, 2001	32,333,599	\$ 35,601,782
Shares issued for cash on:		
Exercise of warrants	1,462,500	3,607,005
Exercise of options	254,166	314,334
Outstanding, May 31, 2002 (unaudited)	34,050,265	\$ 39,523,121

3. Share capital (continued):

(c) Share option plan:

A summary of the Company's share option activity for the nine months ended May 31, 2002 is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Outstanding, August 31, 2001	3,797,691	\$ 2.44
Options granted	1,103,400	2.18
Options exercised	(254,166)	1.24
Options cancelled	(217,987)	3.20
Outstanding, May 31, 2002 (unaudited)	4,428,938	\$ 2.29

The following table summarizes the share options outstanding at May 31, 2002:

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
\$ 0.77 - \$ 1.21	887,078	1.34 years	\$ 1.15	782,007	\$ 1.15
\$ 1.26 - \$ 2.97	2,399,982	3.22 years	\$ 2.02	1,318,772	\$ 1.94
\$ 3.01 - \$5.30	1,141,878	3.56 years	\$ 3.73	543,341	\$ 3.88
	4,428,938	2.93 years	\$ 2.29	2,644,120	\$ 2.11

(d) Share purchase warrants :

A summary of the Company's share purchase warrants for the nine months ended May 31, 2002 is as follows:

	Outstanding warrants	
	Number of warrants	Weighted average warrant price
Outstanding, August 31, 2001	3,375,000	\$ 4.17
Warrants granted	441,669	2.60
Warrants exercised	(1,462,500)	2.46
Warrants cancelled	(1,962,500)	5.37
Outstanding, May 31, 2002 (unaudited)	391,669	2.79

3. Share capital (continued):

(d) Share purchase warrants (continued):

The share purchase warrants outstanding at May 31, 2002 include 100,000 warrants issued by the Company on January 26, 2001 as part of the acquisition of Linar Ltd. Each warrant is exercisable into one common share at \$3.20 per share to January 26, 2006. These warrants were recorded at their fair value on the date of issuance of \$140,000 and were included as part of the acquisition consideration. The remaining 291,669 warrants consist of agent's warrants granted as part of the special warrant private placement (note 3(e)).

(e) Special Warrants:

During the three months ended February 28, 2002, the Company completed a private placement of 4,166,700 special warrants at \$2.40 per special warrant, for gross proceeds of \$10,000,080, net of share issue costs of \$825,646. Each special warrant entitles the holder to acquire, without payment of any additional consideration, one common share of the Company. The special warrants will automatically be converted into common shares at the earlier of (i) the fifth business day after a receipt has been issued for any short form prospectus filed by the Company qualifying the distribution of the common shares issuable upon exercise of the special warrants; or (ii) June 3, 2002. The Company has also granted to the agent an agent's warrant to acquire, without additional consideration, an agent's compensation option. The option entitles the agent to purchase 291,669 special warrants at \$2.65 per special warrant until July 29, 2003.

Subsequent to May 31, 2002, the 4,166,700 special warrants were automatically exercised for 4,166,700 common shares.

4. Comparative figures:

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

5. Subsequent event:

Effective June 2002, the Company acquired 100% of the outstanding shares of NMI Electronics Ltd. ("NMI") for £2,769,869 (Cdn. \$6,411,693) cash plus expenses, and additional consideration contingent upon NMI's earnings performance. NMI is a privately held company based in the United Kingdom. The Company is currently reviewing the allocation of the purchase price.