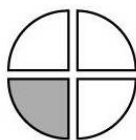




Accelerate your Vision.

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

Quarterly Report 2004



Third Quarter



Accelerate your Vision.

Executive Officers

Derek W. Spratt, P.Eng.
CEO

Vincent Schiralli, BA
President & COO

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

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

Board of Directors

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

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

Vincent Schiralli, BA
Vancouver, BC, Canada

George A. Duguay, CGA
Thornhill, ON, Canada

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

Geoffrey S. Belsher, LLB
Vancouver, BC, Canada

Glenda M. Dorchak
Santa Clara, CA, USA

William K. Bryant
Seattle, WA, USA

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Market Information Symbol: ICS:TSX

Web Site: www.intrinsyc.com

Report To Shareholders

July 2004

Dear Shareholder:

Intrinsyc's third quarter revenues, margins, and positive cash flow continue to demonstrate a renewed strength in our core business. Over the last year we have built a solid foundation to base our future growth on. We believe that our team work has resulted in us consistently meeting the goals we set out for ourselves a year ago, which were to run a break-even core business, leverage and expand Intrinsyc's wealth of key partnerships and installed customer base in the pursuit of new strategic opportunities, and to develop and introduce exciting new products that will drive our revenue growth and market share in subsequent years.

One of our major internal initiatives has been to put in place strategic and operational plans to accelerate R&D investment into new software networking products – specifically in the area of enterprise mobility which we perceive as one of the areas of strongest growth potential for the company. One such product was commercially introduced into our highly successful line of enterprise interoperability solutions at the major JavaOne industry conference in San Francisco, California along with our mobile Enterprise Service Bus concept, which was demonstrated in London in a beta state as part of our growing mobility / smartphone software offerings. We have other confidential R&D initiatives underway that will result in product announcements later on this year as well. All of these new products

are expected to create strong returns on investment for our shareholders.



As Intrinsyc re-enters a period of strong growth, both financially, and via enhanced product development initiatives and innovation, we will now have the financial and marketing support of our growing list of strategic partners. The enterprise mobility market also requires that Intrinsyc establish working relationships with the world's major wireless network operators, something we are in the midst of successfully doing. We already have an excellent working relationship with device manufacturers and major device and enterprise software vendors to start from.

As new networks, applications, delivery content and wireless devices hit the market in the coming year, we will provide our products and services in a healthy revenue balance that will contribute to maximizing our margins while ensuring that our software sales and intellectual property development remain our highest priority.

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.

Sincerely,
Intrinsyc Software International, Inc.

A handwritten signature in black ink, appearing to read "Derek Spratt". The signature is stylized and cursive.

Derek Spratt
Chief Executive Officer

Management's Discussion & Analysis

This discussion and analysis covers our interim consolidated financial statements for the three and nine month periods ended May 31, 2004. It also provides an update to the discussion and analysis contained in our 2003 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 2003 Annual Report.

Overview

Revenue for the third quarter ended May 31, 2004 increased to \$4.0 million from \$3.8 million in the previous quarter and increased from revenue of \$3.7 million in the third quarter of fiscal 2003. Revenue for the nine month period ending May 31, 2004 was \$11.3 million, a slight increase over revenue of \$10.9 million in 2003. Gross margin in the current quarter was 46% as compared to 42% in the same period of the prior year and 40% in the preceding quarter.

The loss for the current quarter was \$197,430 or \$0.005 per share as compared to a loss of \$2.3 million or \$0.06 per share in the third quarter of the prior year.

Intrinsyc ended the third quarter with cash and cash equivalents of \$6.2 million as compared to \$6.9 million at the end of fiscal 2003. Operating, investing and financing activities generated a cash inflow of \$199,119 in the current quarter compared to the net cash inflow in the third quarter of 2003 of \$691,301. On a year-to-date basis activities have resulted in a cash outflow of \$770,485 compared to a cash outflow of \$1.4 million in 2003.

RESULTS OF OPERATIONS

For the third quarter ended May 31, 2004, Intrinsyc recognized revenue of \$4.0 million, an increase of 9% from the previous year's revenues of \$3.7 million and an increase of 5% from revenue in the preceding quarter. Licensing comprised 15% of the revenue in the quarter compared to 34% of revenue in Q3 of fiscal 2003 and 23% in the preceding quarter. Services accounted for 68% of revenue compared to 45% in the prior year quarter and 63% in the second quarter of 2004. Product sales in the quarter were 17% of revenue compared to 21% in the third quarter of 2003 and 14% in the second quarter of 2004.

As a result of this revenue mix as well as ongoing efforts to streamline resources, gross margin on sales increased to 46% as compared to 42% in the third quarter of fiscal 2003. On a year to date basis gross margin of 39% is up from 36% in 2003. There were two significant customers in the third quarter ended May 31, 2004, one that accounted for 23% of revenue and a second that accounted for 13% of revenue.

The net loss for the quarter ended May 31, 2004, was \$197,430 or \$0.005 per share, compared with a loss of \$2.3 million or \$0.06 per share in the third quarter of fiscal 2003. For the nine months ended May 31, 2004 the net loss was \$1.1 million or \$0.03 per share, compared with a net loss of \$6.0 million or \$0.16 per share for the nine month period ending May 31, 2003.

General and administration expenses increased by 30% to \$688,732 in the third quarter of 2004 from \$531,203 in the same quarter of the prior year as a result of increased costs related to new management positions, new governance and external reporting requirements, higher insurance premiums and an expanded Board membership. For the nine months ended May 31, 2004, general and administrative expenses of \$1.9 million were up 8% compared to \$1.8 million in the same period in the prior year.

Marketing and sales expenses were \$845,799 in the current quarter, a decrease of 19% compared to \$1.0 million in the third quarter of fiscal 2003. For the nine month period marketing and sales expenses decreased by 35% from \$3.5 million in fiscal 2003 to \$2.3 million in fiscal 2004. The decrease is predominantly attributable to reductions in direct sales expenses and the ongoing strategy to foster indirect sales channels and larger, longer term services engagements.

Research and development expenses of \$406,420 in the quarter decreased significantly compared to \$891,729 in the third quarter of fiscal 2003. For the nine month period ended May 31, 2004, research and development costs decreased by 52% from \$3.1 million to \$1.5 million. This decrease in costs was related to the review of product lines and technology strategy made by management during 2003. Included in the year to date expense for fiscal 2004 is a charge of approximately \$300,000 for redundancy payments made as a result of a strategic realignment of engineering resources made in the second quarter of this year.

As part of an investment agreement with Technology Partnerships Canada the Company qualified for funding in the quarter of \$85,000 compared to \$233,750 in the third quarter of 2003. For the nine months ended May 31, 2004 the Company qualified for funding of \$603,074 as compared to \$1.0 million for the same period in 2003. The funding term of the Technology Partnerships Canada investment agreement expired on March 31, 2004 and no benefit has been accrued for expenditures subsequent to that date.

On April 14, 2004, the Company announced that it had been notified by Industry Canada that as part of an audit of the Company's Technology Partnerships Canada funding contract, payments of current outstanding claims would be withheld until the completion of the audit as permitted in the funding contract. There has been no update from Industry Canada since this notice. The Company determined that it is not possible at this time to predict the outcome of this audit. Due to the uncertainty involved no provision for payment under the funding contract was recorded in the financial statements for the period ended May 31, 2004.

Liquidity and Capital Resources

As at May 31, 2004, Intrinsic's cash, cash equivalents and short term investment position was \$6.2 million with a net working capital of \$8.2 million. During the quarter the Company generated \$1.1 million of cash from operating activities and used \$905,702 of cash in investing activities as compared to the third quarter of the prior year where operating activities consumed \$2.0 million of cash and financing activities generated \$2.7 million of cash. Net cash flow for the third quarter ended May 31, 2004, was an increase of \$199,119 compared to a net increase in cash of \$691,301 in the third quarter of fiscal 2003.

During the quarter ended May 31, 2004, guaranteed loan notes of \$2.2 million and loan notes of \$862,950 were redeemed by the holders in return for cash and restricted cash.

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



Accelerate your Vision.

**Consolidated Financial Statements of
Intrinsic Software International, Inc.
(Formerly Intrinsic Software, Inc.)**

Three and nine months ended May 31, 2004 and 2003

INTRINSYC SOFTWARE INTERNATIONAL, INC.
(Formerly Intrinsyc Software, Inc.)

Consolidated Balance Sheets
(Unaudited)

	May 31, 2004	August 31, 2003
	(Unaudited)	(Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,150,300	\$ 6,920,785
Funds held in trust (note 2(b))	-	461,438
Restricted cash	-	1,983,661
Accounts receivable	3,221,095	3,353,732
Other receivable (note 6)	763,127	960,282
Inventory	361,981	609,145
Prepaid expenses	153,732	156,215
	<u>10,650,235</u>	<u>14,445,258</u>
Capital assets	926,091	1,188,418
Goodwill (note 3(a))	14,189,478	11,671,498
Intangible assets (note 3(b))	1,464,831	1,668,786
	<u>\$ 27,230,635</u>	<u>\$ 28,973,960</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,360,048	\$ 2,036,949
Income taxes payable	286,057	250,113
Deferred revenue	828,994	459,803
Guaranteed loan note (note 2(a))	-	1,983,661
Loan note (note 2(a))	-	804,271
	<u>2,475,099</u>	<u>5,534,797</u>
Future income taxes	379,683	500,633
Shareholders' equity:		
Share capital (note 5(b))	49,536,183	49,512,683
Contributed surplus	163,500	140,000
Shares to be issued (note 2(a))	2,791,894	399,560
Cumulative translation adjustment	(27,359)	(88,855)
Deficit	<u>(28,088,365)</u>	<u>(27,024,858)</u>
	<u>24,375,853</u>	<u>22,938,530</u>
	<u>\$ 27,230,635</u>	<u>\$ 28,973,960</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Derek Spratt, Director



Robert Gayton, Director

INTRINSYC SOFTWARE INTERNATIONAL, INC.
**Consolidated Statements of Operations and Deficit
(Unaudited)**

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2004	2003	2004	2003
Revenues	\$ 3,990,698	\$ 3,666,339	\$ 11,340,280	\$ 10,861,056
Cost of sales	2,170,598	2,128,367	6,881,618	6,952,318
	1,820,100	1,537,972	4,458,662	3,908,738
Expenses:				
Administration	688,732	531,203	1,936,455	1,792,782
Marketing and sales	845,799	1,043,038	2,278,597	3,515,361
Research and development, net	406,420	891,729	1,516,575	3,145,332
Amortization	222,709	321,949	879,631	969,442
Less: Technology Partnerships				
Canada Funding Investment (note 6)	(85,000)	(233,750)	(603,074)	(1,034,425)
Restructuring costs	-	745,129	-	745,129
	2,078,660	3,299,298	6,008,184	9,133,621
Loss before other (income) expense and income taxes	258,560	1,761,326	1,549,522	5,224,883
Other (income) expense:				
Foreign exchange (gain) loss	(119,245)	625,133	(378,381)	1,095,951
Interest (income) expense	75,435	(42,116)	4,937	(231,450)
Loss before income taxes	214,750	2,344,343	1,176,078	6,089,384
Income tax (recovery) expense				
Current	6,330	51,829	8,379	74,988
Future	(23,650)	(53,650)	(120,950)	(160,950)
	(17,320)	(1,821)	(112,571)	(85,962)
Net loss for the period	197,430	2,342,522	1,063,507	6,003,422
Deficit, beginning of period	27,890,935	23,638,137	27,024,858	19,977,237
Deficit, end of period	\$ 28,088,365	\$ 25,980,659	\$ 28,088,365	\$ 25,980,659
Net loss per share	\$ 0.005	\$ 0.06	\$ 0.03	\$ 0.16
Weighted average number of common shares outstanding	40,880,705	38,283,965	40,864,460	38,283,965

See accompanying notes to consolidated financial statements.

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

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2004	2003	2004	2003
Cash provided by (used in):				
Operating activities:				
Net loss for the period	\$ (197,430)	\$ (2,342,522)	\$ (1,063,507)	\$ (6,003,422)
Items not involving cash:				
Amortization	222,709	321,949	879,631	969,442
Future income taxes	(23,650)	(53,650)	(120,950)	(160,950)
Unrealized foreign exchange (gain) loss on contingent consideration	(56,378)	(55,520)	58,679	(87,115)
Changes in non-cash operating working capital:				
Funds held in trust (current) (note 2(b))	-	38,461	461,438	61,989
Accounts receivable	944,034	(127,642)	132,637	1,927,274
Other receivable	(85,000)	99,115	197,155	589,386
Inventory	82,120	204,381	247,164	(107,313)
Prepaid expenses	(17,821)	96,827	2,483	176,727
Accounts payable and accrued liabilities	149,496	(105,911)	(660,672)	(1,833,012)
Income taxes payable	45,605	-	35,944	-
Deferred revenue	18,994	(75,156)	369,191	(115,803)
	1,082,679	(1,999,668)	539,193	(4,582,797)
Investing activities:				
Purchase of capital assets	(42,752)	(19,103)	(139,269)	(254,717)
Acquisition of intangible assets (note 2(c), 3(b))	-	-	(274,080)	-
Acquisition costs related to additional goodwill (note 3(a))	-	-	(118,375)	-
Funds held in trust (long-term)	-	-	-	520,461
Loan Note	(862,950)	-	(862,950)	-
	(905,702)	(19,103)	(1,394,674)	265,744
Financing activities:				
Issuance of common shares	23,500	-	23,500	51,590
Restricted cash	-	2,710,072	-	2,820,581
	23,500	2,710,072	23,500	2,872,171
Foreign exchange effect on cash and cash equivalents	(1,358)	-	61,496	-
Increase (decrease) in cash and cash equivalents	199,119	691,301	(770,485)	(1,444,882)
Cash and cash equivalents, beginning of period	5,951,181	7,090,749	6,920,785	9,226,932
Cash and cash equivalents, end of period	\$ 6,150,300	\$ 7,782,050	\$ 6,150,300	\$ 7,782,050
Supplementary information:				
Interest paid	\$ 90,529	\$ 73	\$ 90,684	\$ 1,462
Interest received	41,149	41,382	90,522	248,706
Income taxes paid (recovered)	(1,039)	19,968	5,525	49,968
Non-cash investing:				
Additional consideration payable in relation to the acquisition of IEL (note 2(a))	442,713	1,959,293	2,392,334	4,724,461
Additional consideration payable in relation to the acquisition of Linar	-	-	7,271	445,435

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

Three months ended May 31, 2004 and May 31, 2003

Nine months ended May 31, 2004 and May 31, 2003

(Unaudited)

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 accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at May 31, 2004 and for all periods presented, have been included. Interim results for the three month and nine month periods ended May 31, 2004 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, Intrinsic Software (USA) Inc., Intrinsic Inc., Linar Ltd., and Intrinsic Europe 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 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, 2003.

2. Acquisitions:

(a) Intrinsic Europe Ltd.:

On June 26, 2002, the Company acquired all of the outstanding shares of Intrinsic 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 purchase agreement contains provisions for additional consideration subject to the achievement of certain performance targets during each of the 12 month periods ended May 31, 2003 and 2004.

The performance criteria for the 12 month period ended May 31, 2003 were achieved, and consequently, additional consideration of \$4,724,461 was due and payable and has been recorded as additional goodwill for the year ended August 31, 2003.

During the quarter ended May 31, 2004, guaranteed loan notes of \$2,125,825 (£881,500) and loan notes of \$862,950 (£357,833) related to the 12 month period ended May 31, 2003 were redeemed by the holders in return for restricted cash and cash. The Company also paid interest in the quarter ended May 31, 2004, of \$90,052 (£37,341) in connection with the guaranteed loan notes.

2. Acquisitions (continued):

Additional consideration of up to \$4,120,182 was previously contingently payable or issuable upon the achievement of certain revenue targets for the 12 months ended May 31, 2004. Based on an amendment dated May 28, 2004, to the original agreements, all contingent and unpaid consideration as at May 28, 2004 is considered to be extinguished in return for the issuance of 4,105,727 common shares. The shares were subsequently issued on July 14, 2004.

(a) Intrinsic Europe Ltd. (continued):

As at February 29, 2004 additional contingent consideration of \$1,949,621 and unpaid consideration of \$399,560 had been accrued. The issuance of 4,105,727 shares, with an estimated value of \$2,791,894 based on the closing price of \$0.68 of the Company's shares as at May 31, 2004, satisfies all amounts payable and will complete the transaction in its entirety. The difference between the value of the shares to be issued, \$2,791,894, and the amount of contingent and future payable consideration previously accrued, \$2,349,181, amounts to \$442,713 and this has been recorded as an addition to goodwill during the three months ended May 31, 2004.

(b) Linar Ltd.:

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.

Cash payments of up to US\$1,000,000 were payable upon the achievement of specified performance criteria by a certain employee until January 26, 2004 and were recorded as an expense in the period the obligation was incurred. The cash was held in trust pursuant to the acquisition agreement to be paid upon the achievement of the criteria. The final payment of US\$333,000 (\$441,158), was paid out on January 26, 2004 since the performance criteria were achieved.

Warrants to purchase 25,000 common shares of the Company were issued during the three month period ended November 30, 2003 with an exercise price equal to fair market value on January 26, 2003 based on specified criteria having been met (note 5(d)).

(c) Consequent Technologies, Inc.:

On September 9, 2003, the Company acquired from Consequent Technologies Inc. all of the fixed assets, a strategic alliance agreement with Neoteric, Inc. and a non-competition agreement with an employee in return for a cash payment of \$330,000. The Company has recorded the acquisition of these assets in excess of the fair market value of identifiable assets as a combination of intangible assets and as per the Company's accounting policy will amortize these intangible assets over their useful lives of between two and five years:

Fair market value of identifiable assets	\$55,920
Intangible assets	<u>\$274,080</u>
Total purchase price	<u>\$330,000</u>

2. Acquisitions (continued):

Consequent Technologies, Inc. is considered a related party by virtue of common management and board membership. This acquisition of tangible and intangible assets was reviewed and approved by the directors of the Company who are unrelated and independent of Consequent Technologies, Inc.

3. Goodwill and intangible assets:

- (a) The changes in the carrying amount of goodwill for the nine month period ended May 31, 2004 is as follows:

Balance, August 31, 2003	\$ 11,671,498
Goodwill related to contingent consideration (note 2(a))	2,392,334
Other goodwill additions	125,646
Balance, May 31, 2004	\$ 14,189,478

- (b) Intangible assets as at May 31, 2004 are as follows:

	Gross carrying amount	Accumulated amortization	Total
Intellectual property	\$ 3,070,000	\$ 1,804,387	\$ 1,265,613
Other intangible assets (note 2(c))	\$ 274,080	\$ 74,862	\$ 199,218
	\$ 3,344,080	\$ 1,879,249	\$ 1,464,831

The aggregate amortization expense for the three and nine months ended May 31, 2004 was \$103,787 and \$478,035 respectively, and for the three and nine months ended May 31, 2003 was \$178,833 and \$536,503 respectively.

4. Stock-based compensation:

No compensation expense has been recognized for the Company's share 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.

4. Stock-based compensation (continued):

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2004	2003	2004	2003
Net loss:				
As reported	\$ 197,430	\$ 2,342,522	\$ 1,063,507	\$ 6,003,422
Pro forma	369,042	2,402,715	1,541,402	6,160,493
Net loss per common share:				
As reported	0.005	0.06	0.03	0.16
Pro forma	0.009	0.06	0.04	0.16

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 weighted average assumptions:

	Three months ended		Nine months ended	
	May 31,		May 31,	
	2004	2003	2004	2003
Expected life (in years)	2.62	2.62	2.62	2.62
Risk-free interest rate	2.94%	3.21%	2.94%	3.31%
Volatility	157.80%	135.12%	154.53%	100.19%
Dividend yield	0.00%	0.00%	0.00%	0.00%

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 common shares	Amount
Outstanding, August 31, 2003 and February 29, 2004	40,856,248	\$ 49,512,683
Shares issued for cash on exercise of warrants	25,000	23,500
Outstanding, May 31, 2004	40,881,248	49,536,183

(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 closing price of the Company's stock prior to the grant date. Options granted on or after May 11, 1999 and before April 5, 2001 generally vest over three years with the first 1/12 vesting at the first quarter anniversary date of the

5. Share capital (continued):

grant and the balance vesting in equal amounts at the end of each quarter thereafter. Options granted on or after April 5, 2001 generally vest over three years with the first 1/3 vesting at the first year 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 11,095,774 options for issuance under its employee share option plan of which 4,520,257 have been granted and are outstanding as at May 31, 2004.

(c) Share option plan (continued):

A summary of the Company's share option activity for the nine months ended May 31, 2004 is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Outstanding, August 31, 2003	4,939,007	\$ 1.81
Options granted	1,418,040	1.14
Options cancelled	(1,836,790)	1.80
Outstanding, May 31, 2004	4,520,257	\$ 1.61

The following table summarizes the share options outstanding at May 31, 2004:

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	2,856,435	3.83 years	\$ 1.07	1,089,614	\$ 1.14
\$ 1.32 - \$ 2.97	1,186,427	2.09 years	2.08	818,869	2.39
\$ 3.05 - \$ 5.30	477,395	1.50 years	3.67	434,475	3.72
	4,520,257	3.13 years	\$ 1.61	2,342,958	\$ 2.05

5. Share capital (continued):

(d) Share purchase warrants:

During the quarter ended November 30, 2003, 25,000 common share purchase warrants were issued at a purchase price \$0.94 with an expiry date of January 26, 2008 as part of the January 26, 2001 Linar acquisition (note 2(b)). These warrants were exercised during the current quarter ended May 31, 2004. As at May 31, 2004, 100,000 common share purchase warrants are outstanding at a weighted average exercise price of \$3.20.

	Outstanding warrants	
	Number of warrants	Weighted average exercise price
Outstanding, August 31, 2003	100,000	3.20
Warrants issued	25,000	0.94
Warrants exercised	(25,000)	0.94
Outstanding, May 31, 2004	100,000	\$ 3.20

6. Government Assistance:

The Company's Technology Partnerships Canada ("TPC") funding agreement expired on March 31, 2004 and all claims up to that date, in the amount of \$3,187,167, have been completed and filed. During the quarter ended May 31, 2004 the Company was notified that, as part of the audit of the Company's claims, payment of current outstanding claims totaling \$947,374, (\$763,127 net of commissions), will be withheld until the completion of the audit as permitted in the funding contract. At this time, due to the uncertainty involved with the audit, it is not possible to predict the outcome. Accordingly, no provision has been recorded in these statements for any potential adjustments that might arise from this audit.

7. Comparative figures:

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