

Consolidated Financial Statements of

INTRINSYC SOFTWARE, INC.

Years ended August 31, 2002 and 2001



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Intrinsic Software, Inc. as at August 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

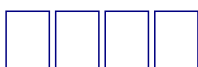
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied, after giving retroactive effect to the adoption of the new accounting standard relating to earnings per share as described in note 2(o) to the consolidated financial statements, on a consistent basis.

KPMG LLP

Chartered Accountants

Vancouver, Canada

October 9, 2002



KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.

INTRINSYC SOFTWARE, INC.

Consolidated Balance Sheets

August 31, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,226,932	\$ 15,065,099
Funds held in trust (note 3(b))	517,700	517,700
Accounts receivable	5,159,369	1,559,374
Other receivable (note 8(b))	1,256,418	-
Inventory	753,155	298,245
Prepaid expenses	263,609	270,432
	<u>17,177,183</u>	<u>17,710,850</u>
Funds held in trust (note 3(b))	520,461	1,035,745
Restricted cash (note 3(a))	5,132,238	-
Fixed assets (note 4)	1,472,962	1,103,820
Other assets (note 5)	9,168,943	3,759,353
	<u>\$ 33,471,787</u>	<u>\$ 23,609,768</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,428,276	\$ 2,671,568
Deferred revenue	439,050	1,108,701
Future income taxes	179,600	120,000
	<u>4,046,926</u>	<u>3,900,269</u>
Future income taxes (note 7)	535,633	170,000
Shareholders' equity:		
Share capital (note 6)	48,697,555	35,601,782
Share purchase warrants (note 3(b))	140,000	140,000
Cumulative translation adjustment	28,910	-
Deficit	(19,977,237)	(16,202,283)
	<u>28,889,228</u>	<u>19,539,499</u>
	<u>\$ 33,471,787</u>	<u>\$ 23,609,768</u>

Commitments and contingencies (note 8)

Subsequent event (note 6(c))

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

INTRINSYC SOFTWARE, INC.

Consolidated Statements of Operations and Deficit

Years ended August 31, 2002 and 2001

	2002	2001
Revenues (note 10(b))	\$ 14,175,201	\$ 10,940,424
Cost of sales	6,835,054	4,660,290
	7,340,147	6,280,134
Expenses:		
Administration	2,241,754	2,891,097
Marketing and sales	5,038,000	4,362,627
Research and development	3,877,304	2,769,602
Amortization	1,532,960	884,818
Less: Technology Partnerships Canada Funding Investment (note 8(b))	(1,256,418)	-
	11,433,600	10,908,144
Loss before interest income and income taxes	4,093,453	4,628,010
Interest income	388,876	823,845
Loss before income taxes	3,704,577	3,804,165
Income tax expense (recovery) (note 7)		
Current	206,144	-
Future	(135,767)	(70,000)
	70,377	(70,000)
Loss for the year	3,774,954	3,734,165
Deficit, beginning of year	16,202,283	12,468,118
Deficit, end of year	\$ 19,977,237	\$ 16,202,283
Loss per share	\$ 0.10	\$ 0.12
Weighted average number of shares outstanding	36,340,884	31,211,546

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE, INC.

Consolidated Statements of Cash Flows

Years ended August 31, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (3,774,954)	\$ (3,734,165)
Items not involving cash:		
Amortization	1,532,960	884,818
Foreign exchange	22,454	-
Future income taxes	(135,767)	(70,000)
Changes in non-cash operating working capital:		
Accounts receivable	(2,862,008)	(401,717)
Other receivable	(1,256,418)	-
Inventory	(106,990)	28,361
Prepaid expenses	95,114	(206,842)
Accounts payable and accrued liabilities	(45,626)	1,305,643
Deferred revenue	(669,651)	975,729
	(7,200,886)	(1,218,173)
Investing activities:		
Acquisition of Linar Ltd., net of \$466,318 cash acquired (note 3(b))	-	(2,587,221)
Funds held in trust (note 3(b))	515,284	(1,553,445)
Restricted cash (note 3(a))	(5,132,238)	-
Purchase of fixed assets	(682,730)	(674,509)
Acquisition of NMI Electronics Ltd., net of \$408,648 cash acquired (note 3(a))	(6,395,343)	-
	(11,695,027)	(4,815,175)
Financing activities:		
Issuance of common shares for cash:		
Special warrants, net of issue costs	9,174,434	12,396,755
Options	314,334	416,903
Warrants	3,607,005	1,133,746
Repayment of obligation under capital lease	(38,027)	(37,057)
	13,057,746	13,910,347
Increase (decrease) in cash and cash equivalents	(5,838,167)	7,876,999
Cash and cash equivalents, beginning of year	15,065,099	7,188,100
Cash and cash equivalents, end of year	\$ 9,226,932	\$ 15,065,099
Supplementary information:		
Interest paid	\$ -	\$ -
Non-cash financing activities:		
Acquisition of capital asset funded by capital lease	-	59,141
Non-cash investing:		
Common shares issued for acquisition of Linar Ltd. (note 3(b))	-	1,033,600
Warrants issued on acquisition of Linar Ltd. (note 3(b))	-	140,000

See accompanying notes to consolidated financial statements.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

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, networking and managing specialized intelligent devices.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Intrinsic Software (USA) Inc., Intrinsic Inc., Linar Ltd. and NMI Electronics Ltd. 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 deposits rated R1, term deposits, Guaranteed Investment Certificates deposits or banker's acceptances, with a 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 estimated net realizable value with cost being determined on a first-in-first-out basis.

(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

Years ended August 31, 2002 and 2001

2. Significant accounting policies (continued):

(f) Fixed assets:

Fixed 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) Intellectual property:

Intellectual property is recorded at cost. Intellectual property related to software is amortized on a straight-line basis over three years and intellectual property related to hardware is amortized on a straight-line basis over seven years.

(h) Goodwill:

Goodwill represents the excess of consideration paid over fair values assigned to the net identifiable assets acquired in business combinations recorded as a purchase. The Company periodically evaluates whether changes have occurred that would require revision of the remaining estimated useful life of goodwill or in the carrying value. If such circumstances arise, the Company would use an estimate of the undiscounted value of the expected future operating cash flows to determine whether the net carrying amount of the goodwill exceeds the estimated net recoverable amount.

During the year, the Company implemented the new recommendations of the Canadian Institute of Chartered Accountants for the accounting for business combinations. Accordingly, goodwill arising on business combinations entered into prior to July 1, 2001 is amortized on a straight-line basis over five years, while goodwill arising on business combinations entered into subsequent to July 1, 2001 is tested for impairment and is not amortized. The effect on the current period is to reduce amortization by approximately \$154,000.

(i) Revenue recognition:

The Company recognizes revenue from the sale of product and software licenses upon transfer of title, which generally occurs on shipment, 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.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

2. Significant accounting policies (continued):

(i) Revenue recognition (continued):

Revenues from contracts with milestone payments are recognized using the percentage of completion method based on costs incurred relative to total estimated costs to complete. Changes in estimates of contract price, total estimated costs, or estimated losses, if any, are included in the determination of estimated cumulative revenues and expenses in the period the change is determined by management.

(j) Warranty costs:

The Company accrues warranty costs based on management's best estimate, with reference to past experience.

(k) 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.

(l) Impairment of fixed assets:

The Company monitors the recoverability of fixed 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 August 31, 2002, the Company has not recorded any such impairment losses.

(m) Translation of foreign currencies:

Foreign operations that are considered integrated (financially and operationally dependent on the parent) are translated to Canadian dollars using current rates of exchange for monetary assets and liabilities. Historical rates of exchange are used for non-monetary assets and liabilities and average rates for the period are used for revenues and expenses except for amortization, which is translated at exchange rates used in the translation of the relevant asset accounts. Gains or losses resulting from these translation adjustments are included in income.

Foreign operations that are considered self-sustaining (financially and operationally independent of the parent) are translated to Canadian dollars using the current rates of exchange for assets and liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of shareholders' equity ("Cumulative translation adjustment") until there is a realized reduction in the parent's net investment in the foreign operation.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

2. Significant accounting policies (continued):

(m) Translation of foreign currencies (continued):

Transactions completed in foreign currencies are recorded in Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are recorded in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(n) Share compensation:

The Company has one share-based compensation plan, which is described in note 6. 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 closing price of the Company's stock as traded on the TSX on the day prior to the date the obligation for issuance occurs.

(o) Loss per share:

During the year, the Company adopted the Canadian Institute of Chartered Accountants' new recommendations on earnings per share calculations. Under these recommendations, the loss per share continues to be calculated using the weighted average number of common shares outstanding during the period. If in a reporting period the Company has outstanding dilutive equity instruments, the diluted earnings (loss) per share are now calculated using the treasury stock method. Diluted per share amounts have not been disclosed as the effect of outstanding options and warrants is anti-dilutive for all periods presented. The new recommendations have been applied retroactively and there was no impact on the figures presented.

(p) 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 of existing assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using enacted or substantively 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 substantive enactment date. Future income tax assets are evaluated and if their realization is not considered "more likely than not", a valuation allowance is provided.

(q) 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 year.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

3. Acquisitions:

(a) NMI Electronics Ltd.

On June 26, 2002, the Company acquired all of the outstanding shares of NMI Electronics Ltd. ("NMI"), a U.K.-based company that is a developer of Windows CE-based products, personal digital assistants and mobile telephony 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 Company's interest in the net assets acquired at fair values is as follows:

Cash	\$ 408,648
Current assets	1,124,627
Fixed assets	123,096
Intellectual property	1,870,000
Current liabilities	(790,803)
Future income tax liability	(561,000)
Goodwill	4,629,423
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	\$ 6,803,991
Consideration:	
Cash of £2,769,869	\$ 6,411,693
Expenses	392,298
	<hr/>
	\$ 6,803,991

Additional consideration of up to £1,763,000 (\$4,398,685) of guaranteed loan notes, £1,090,000 (\$2,719,562) of unsecured loan notes, £380,400 (\$949,098) of cash, and 1,856,000 common shares in total are contingently payable or issuable on June 26, 2003 and June 26, 2004 upon the achievement of certain revenue targets. The maximum additional consideration will be payable if NMI achieves revenues of £3,100,000 in the first year and £3,750,000 in the second year. The purchase accounting for this transaction will be adjusted for the value of the contingent consideration if the revenue targets are determined to have been met during the next two anniversary dates. A total of £2,057,000 (\$5,132,238) to guarantee the ability to issue the above mentioned loan notes and cash of £294,000 (\$733,553) is held as restricted cash.

The intellectual property is made up of software and hardware designs. Software intellectual property is being amortized straight-line over three years and hardware designs straight-line over seven years.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

3. Acquisitions (continued):

(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. 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)
Future income tax liability	(360,000)
Goodwill	3,089,795
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	\$ 4,227,139

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
Cash consideration based on attaining revenues from specific sales opportunities (U.S. \$500,000)	769,250
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	34,289
	<hr/>
	\$ 4,227,139

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. Cash payments of up to U.S. \$1,000,000 (\$1,553,445) may become payable upon the achievement of specified performance criteria by a certain employee until January 26, 2004 and will be recorded as an expense in the period the obligation is incurred. The cash is held in trust pursuant to the acquisition agreement to be paid upon the achievement of the criteria. The first payment of U.S. \$333,000 (\$515,284) was paid during the year as the performance criteria were achieved. The second payment of U.S. \$333,000 (\$517,700) will be required on January 26, 2003 if the performance criteria are achieved. The remaining balance of U.S. \$334,000 (\$520,461) will be due January 26, 2004 assuming performance criteria are achieved. 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.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

4. Fixed assets:

2002	Cost	Accumulated amortization	Net book value
Computers and equipment	\$ 1,358,823	\$ 740,789	\$ 618,034
Computer software	782,699	440,927	341,772
Furniture and fixtures	629,573	327,110	302,463
Leasehold improvements	254,267	43,574	210,693
	\$ 3,025,362	\$ 1,552,400	\$ 1,472,962

2001	Cost	Accumulated amortization	Net book value
Computers and equipment	\$ 1,031,602	\$ 415,310	\$ 616,292
Computer software	403,577	148,355	255,222
Furniture and fixtures	251,286	79,901	171,385
Leasehold improvements	76,455	15,534	60,921
	\$ 1,762,920	\$ 659,100	\$ 1,103,820

5. Other assets:

2002	Cost	Accumulated amortization	Net book value
Intellectual property	\$ 3,070,000	\$ 685,878	\$ 2,384,122
Goodwill – Linar acquisition	3,089,795	934,397	2,155,398
Goodwill – NMI acquisition	4,629,423	-	4,629,423
	\$ 10,789,218	\$ 1,620,275	\$ 9,168,943

2001	Cost	Accumulated amortization	Net book value
Intellectual property	\$ 1,200,000	\$ 233,331	\$ 966,669
Goodwill – Linar acquisition	3,089,795	297,111	2,792,684
	\$ 4,289,795	\$ 530,442	\$ 3,759,353

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

6. 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, 2000	27,736,285	\$ 20,620,778
Shares issued for cash on:		
Exercise of special warrants, net of share issue costs	3,000,000	12,396,755
Exercise of warrants	848,900	1,133,746
Exercise of options	425,414	416,903
Shares issued in consideration of:		
Acquisition of Linar Ltd.	323,000	1,033,600
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
Exercise of special warrants (note 6(e))	4,166,700	9,174,434
Outstanding, August 31, 2002	38,216,965	\$ 48,697,555

(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 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 9,647,581 options for issuance under its employee share option plan.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

6. Share capital (continued):

(c) Share option plan (continued):

A summary of the Company's share option activity for the years ended August 31, 2002 and 2001, is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Outstanding, August 31, 2000	3,728,832	\$ 2.09
Options granted	826,500	3.18
Options exercised	(425,414)	0.98
Options cancelled	(332,227)	2.05
Outstanding, August 31, 2001	3,797,691	2.44
Options granted	1,209,550	2.10
Options exercised	(254,166)	1.24
Options cancelled	(281,238)	3.01
Outstanding, August 31, 2002	4,471,837	\$ 2.26

The following table summarizes the share options outstanding at August 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	880,953	1.07 years	\$ 1.15	802,661	\$ 1.15
\$ 1.26 - \$ 2.97	2,473,298	3.02 years	1.99	1,397,439	1.98
\$ 3.01 - \$ 5.30	1,117,586	3.30 years	3.74	601,354	3.88
	4,471,837	2.71 years	\$ 2.26	2,801,454	\$ 2.15

Subsequent to year-end, the Company re-priced 829,928 stock options with exercise prices ranging from \$1.20 - \$5.30 to \$1.18 pending TSX approval.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

6. Share capital (continued):

(d) Share purchase warrants:

A summary of the Company's share purchase warrants for the years ended August 31, 2002 and 2001 is as follows:

	Outstanding warrants	
	Number of warrants	Weighted average warrant price
Outstanding, August 31, 2000	2,323,900	\$ 2.01
Warrants granted	1,900,000	5.50
Warrants exercised	(848,900)	1.34
Outstanding, August 31, 2001	3,375,000	\$ 4.17
Warrants granted	441,669	2.60
Warrants exercised	(1,462,500)	2.47
Warrants cancelled	(1,962,500)	5.37
Outstanding, August 31, 2002	391,669	\$ 2.79

The share purchase warrants outstanding at August 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 6(e)).

(e) Special warrants:

During the year, 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 entitled the holder to acquire, without payment of any additional consideration, one common share of the Company. On June 3, 2002, the 4,166,700 special warrants were automatically exercised for 4,166,700 common shares. 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.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

7. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 41.3% (2001 - 44.6%) to income before income taxes due to the following:

	2002	2001
Combined Canadian federal and provincial income taxes at expected rate	\$ (1,529,990)	\$ (1,696,658)
Losses not tax effected	1,621,199	1,696,658
Foreign income taxed at different rates	(96,200)	-
Permanent and other	75,368	(70,000)
	\$ 70,377	\$ (70,000)

The composition of the Company's future tax assets at August 31, 2002 and 2001 is as follows:

	2002	2001
Future income tax assets:		
Capital assets	\$ 282,000	\$ 559,000
Loss carry forwards	6,500,000	5,400,000
Share issue costs	378,000	610,000
	7,160,000	6,569,000
Valuation allowance	(7,160,000)	(6,569,000)
Future income tax liability:		
Intellectual property	(715,233)	(290,000)
Net future income tax liability	(715,233)	(290,000)
Current future income tax liability	(179,600)	(120,000)
Non-current future income tax liability	\$ 535,633	\$ 170,000

The future income 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 August 31, 2002, the Company has non-capital loss carry forwards aggregating approximately \$17,607,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

7. Income taxes (continued):

2003	\$ 607,000
2004	1,900,000
2005	3,200,000
2006	1,700,000
2007	3,500,000
2008	2,400,000
2009	4,300,000
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	\$ 17,607,000

8. Commitments and contingencies:

- (a) 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 years are approximately as follows:

2003	\$ 733,365
2004	682,632
2005	597,421
2006	102,425
2007	100,425
	<hr/>
	\$ 2,216,268

- (b) Under an agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company is eligible to receive conditionally repayable research and development funding amounting up to \$6,371,351 to support the development of embedded devices and wired and wireless internet-enabled network connectivity. During the year ended August 31, 2002, the Company has claimed \$1,256,418, which has been recorded as a reduction of expenses. Under the terms of the agreement, an amount up to a maximum of \$13,278,000 is to be repaid by royalties on annual sales, in excess of certain revenue thresholds of specified products, commencing in 2003 through to 2011.

9. Financial instruments and risk management:

- (a) Fair values:

The carrying amounts of cash and cash equivalents, funds held in trust, restricted cash, accounts receivable, other receivable and accounts payable and accrued liabilities approximate fair values due to their short maturities.

INTRINSYC SOFTWARE, INC.

Notes to Consolidated Financial Statements

Years ended August 31, 2002 and 2001

9. Financial instruments and risk management (continued):

(b) Credit and foreign currency 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.

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.

10. 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:

Substantially 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:

	2002	2001
United States	\$ 10,092,246	\$ 8,186,297
Canada	377,698	1,193,447
Europe	2,283,639	909,645
Other	1,421,618	651,035
	<u>\$ 14,175,201</u>	<u>\$ 10,940,424</u>

(c) Significant customers:

For the year ended August 31, 2002, there were no significant customers. For the year ended August 31, 2001, revenue from one customer represented \$1,538,462 of the Company's total revenues.