YORKTON

INTRINSYC SOFTWARE INC.

(ICS $4.70, CDNX)

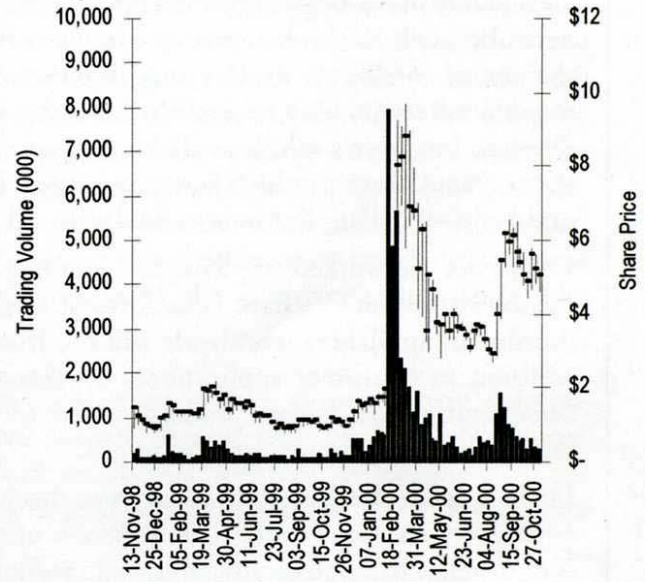
Recommendation:	STRONG BUY
12 to 18-Month Target Price:	$7.00

Next Generation Networking Software

Statistical Summary

	Year end August 31			
	1999	2000	2001E	2002E
Revenue	$2,232	$2,974	$8,864	$20,563
Price/revenue	--	49.7	16.7	7.2
Revenue growth	415%	33%	198%	132%
Basic EPS summary				
Q1	($0.05)	($0.05)		
Q2	(0.01)	(0.04)		
Q3	(0.02)	(0.03)		
Q4	(0.03)	(0.03)		
Total	($0.11)	($0.16)	($0.09)	$0.00
Income Statement Data ($000)				
Net income/(loss)	($2,051)	($3,398)	($2,609)	$101
Earnings (loss) per share	($0.11)	($0.16)	($0.09)	$0.00
As a % of Revenue				
Gross margin	44%	47%	49%	54%
Sales and marketing	53%	68%	40%	33%
Administration	57%	68%	30%	14%
R&D (net)	23%	31%	16%	10%

Fiscal year end	August 31
52-week high/low	$9.70/$0.91
Dividend	nil
Shares outstanding, basic (000)	31,428
Shares outstanding, fully diluted (000)	38,894
Float, basic (000)	30,475
Market capitalization, basic ($000)	$147,711
Market capitalization, fully diluted ($000)	$182,802
Float value ($000)	$143,233
Management and directors share holdings (000)	953
Average weekly trading volume (000)	542
Short position (August 31, 2000; millions)	0.017



Source: Star Data

- Intelligent device market potentially dwarfs the PC market
- Device networking infrastructure software need is pervasive
- Embedded operating system and cross platform expertise fuels demand for Intrinsyc solutions

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HIGHLIGHTS

Intrinsyc Software Inc. (Intrinsyc) develops software and solutions for advanced networking systems that allow customers to bring Internet-enabled computing devices to market quickly and efficiently. Such devices are appealing to consumers, enterprises and industry because they have adaptable configurations, including size, weight and shape and are able to support customized applications and user interfaces that are designed for specific tasks. Applications for such device systems exist within many fields including industrial automation, building automation, telecommunications and mobile computing. Embedded computers, as the solutions are commonly known, are design-intensive and require substantial engineering knowledge and a comprehensive understanding of the specific end product into which they are to be incorporated.

Companies have begun to recognize the advantages of having intelligent devices connected through networks such as the Internet or intranets. As hardware costs decrease and software expertise increases the rise of intelligent devices and "Internet appliances" should become more pronounced. Hardware manufacturers do not necessarily have the expertise to embed connectivity into their manufactured devices. Intrinsyc's solutions allow companies to bring Internet-enabled devices to market sooner than if they created these products independently. Furthermore, standard operating platforms allow for more rapid and varied applications to be developed and are in contrast to proprietary closed systems.

Consumer networked appliances, including personal digital assistants (PDAs), cell-phones, gaming consoles and NetTVs have been forecast to grow significantly. Consulting firm IDC estimates that the number of appliances worldwide will rise from 11 million units in 1999 to 89 million units in 2004. In addition to consumer applications, intelligent device solutions may be found on manufacturing shop floors and within "smart" buildings. The total market for intelligent appliances is difficult to quantify due to the pervasive nature of solutions.

Intrinsyc generates revenues via software licensing royalties, consulting and design services, the sale of its embedded developer toolkits, and the sale of reference hardware and software platforms. Intrinsyc's goal is to develop technologically advanced products that are operating system agnostic to leverage its revenue licensing model and maximize its software royalty revenues. The embedded software and pervasive computing markets can be characterized by rapidly shifting technologies, evolving standards and fragmented competitors. Based on the stage of the industry life cycle and the number of competitors we would expect continued consolidation of competitors. Software developers and architects are in high demand and companies from small professional engineering firms to Microsoft (MSFT, NASDAQ) and Sun Microsystems (SUNW, NASDAQ) are devoting significant resources to growing their share of embedded application software sales.

Intrinsyc is transitioning from a development stage company into an operating firm in an emerging market. The company must now concentrate on marketing and commercializing its software. We are forecasting that the company will grow its operating revenues from $2.9 million in F2000 to $8.9 million in F2001 and $20.6 million in F2002. Correspondingly, we are forecasting operating earnings (losses) to improve from a loss of ($0.16) to ($0.09) in F2001 and $0.00 in F2002. We forecast that the company will turn operationally profitable in the fourth quarter of F2002. We note that there is room for significant upside in our royalty revenue forecasts should Intrinsyc's clients achieve higher than anticipated levels of success.

Our valuation of Intrinsyc is based on a discounted earnings multiple of 60x forward F2003 and a 10-year discounted cash flow analysis. Each of these methods yield a target price in the range of approximately $7. We note that an analysis of relevant comparable companies yields a potential target of up to $14. We recommend shares of Intrinsyc as a Strong Buy with a $7 target.

COMPANY OVERVIEW

Intrinsyc develops networking software for the intelligent device market.

Intrinsyc develops networking software for the intelligent device market. The company also provides design and consulting services for its clients and sells reference platforms for embedded computers. Intrinsyc is based in Vancouver, B.C. and employs approximately 80 personnel. An embedded computer consists of a microprocessor that is incorporated into a larger device and is dedicated to responding to external events in a predictable and reliable manner. The company's current business model evolved from the sale of embedded software toolkits to offering more complete solutions.

Intrinsyc generates revenues through run-time royalty revenues from the commercialization of products utilizing its solutions, provision of consulting services and the sale of its toolkits. The company markets its products and services in North America and Europe through its direct sales force and through industry partners such as Intel Corporation (INTC, NASDAQ). The company also has a series of alliances with embedded computing companies including BSQUARE (BSQR, NASDAQ), Montavista and Lineo. Intrinsyc generates approximately 60% of its revenues from services provided and 40% of revenues from its scalable product suite. We expect this ratio to reverse over the course of our forecast period based on the growth of the company's licensed royalty revenue.

Intrinsyc's plan is to target larger companies within three primary markets: industrial and building automation; mobile devices; and the medical industry. Today, open systems Internet-based embedded software development is not offered by many software firms, let alone hardware manufacturers and industrial manufacturing firms.

Exhibit 1. Embedded Software Applications

Internet and communications infrastructure equipment	Routers, modems and switches
Consumer-oriented devices	PDAs, smart phones, entertainment systems, Internet-enabled television, set-top boxes, home automation systems, automated teller machines and Internet kiosks
Retail business products	Handheld point-of-sale terminals, bar code scanners, smart cash registers, credit card readers and other systems that provide real-time inventory tracking and automate procurement processes
Transportation-related systems	Automobile and aviation navigation and safety systems
Industrial control and automation systems	Manufacturing equipment and components, maintenance and repair machinery

Source: BSQUARE, Lineo, Intrinsyc, Yorkton

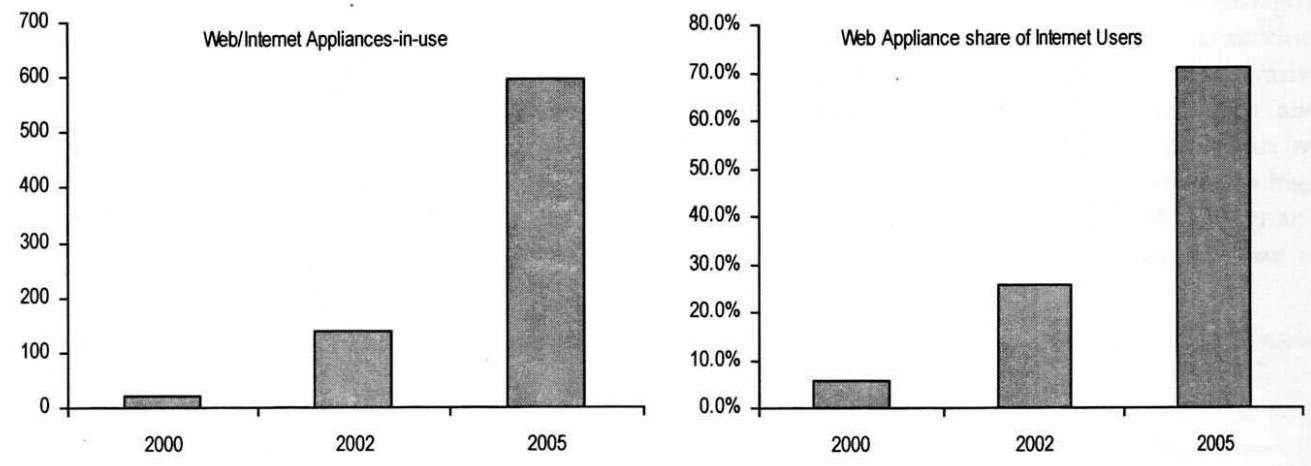
The market for embedded systems is characterized by rapid technological change, evolving industry standards and shifting customer demands. Furthermore, the market for intelligent computing devices is emerging and the potential size of this market is difficult to quantify due to the pervasiveness of the opportunity. For Intrinsyc to scale its growth it will have to succeed in expanding its channels, increasing its customer base and up-selling services and products to customers to increase run-time license revenue. As contract size increases, run-time royalties should rise correspondingly.

Intrinsyc's near and medium-term success will also depend on the acceptance of embedded Windows (including Windows CE, Embedded Windows for NT, Windows 2000) and Linux as operating systems for embedded software. Intrinsyc must also continue to develop innovative products and expand the number of operating systems with which its software is compatible. Furthermore, the company's products must exhibit a high degree of integrity and robustness for Intrinsyc to build its industry reputation. As contract size increases, run-time royalties should rise correspondingly. We believe that the company is exhibiting these qualities and has the potential to become a leading Internet infrastructure software and services firm.

MARKET OPPORTUNITY

The PC transformed the functioning of modern workplaces and homes. Internet usage continues to grow at a rapid pace and connectivity is now being extended to next generation devices. These next generation products are often mobile devices such as phones and PDAs, but also encompass handheld point of sale terminals, automotive computers, industrial machinery and healthcare devices. In short, any device where connectivity and the exchange of information would create a more efficient process is a potential Internet-enabled device. As processing power increases relative to costs, embedded systems should increase their penetration among an increasingly diverse group of devices. We expect each of these trends to continue and, in turn, propel industry growth. Exhibit 1 highlights some of the applications of embedded devices.

Exhibit 2. Worldwide Appliance Forecasts



Source: eTForecasts

CONSUMER APPLICATIONS

Consulting firm eTForecasts estimates that the number of Internet appliances will grow to 596 million by 2005.

As a proxy for embedded software growth, we can observe the forecast growth of Internet-enabled devices. Devices today consist primarily of PDAs and mobile phones. As hybrids evolve and additional features including consumer electronics and professional tools are incorporated, devices will have a different look. As shown in Exhibit 2, Consulting firm eTForecasts estimates that the number of Internet appliances will grow to 596 million by 2005. Furthermore, the percentage of appliance users who access the Internet as a percent of total users

will grow to over 70%. We are beginning to witness this evolution today with the advent of numerous wireless devices. We believe that the pace of the transformation can be questioned but not the end result. Intelligent devices can be characterized as having lower memory and fewer developed applications yet equivalent-processing power when compared with traditional PCs. Where the device is connected through a wireless solution, connectivity speeds are also drastically reduced. Embedded software developers must overcome these hurdles in designing useful devices.

INDUSTRIAL APPLICATIONS

Open systems unchain live manufacturing data, enabling companies to distribute it freely across enterprise networks in real-time to key decision-makers.

Modern manufacturing is evolving and the long-term trend is towards increased automation. We believe that with the increase in automation there is a corresponding demand for real-time information. Where an individual is not able to offer observable feedback, it is up to systems to compensate. With network architectures and software permeating enterprises, we believe a similar effect is occurring on shop floors in the industrial world. An Ethernet connection across the shop floor opens systems and unchains live manufacturing data, enabling companies to distribute it freely across enterprise networks in real-time to key decision-makers. Exhibit 3 highlights applications of embedded software in the industrial arena. As indicated, the potential size of this market and the timing of its development are not fully known.

Exhibit 3. Embedded System Applications in Industrial Automation

Function	Information Sharing/Data Requirements
Operations	Detail scheduling: Sequencing, priorities, routings, shape, fit, set-up, alternative/overlapping/parallel operations, equipment loading, shift patterns
Dispatching	Production units: Flow, jobs, orders, batches, lots, work orders, sequences, changes, events, schedules, controls, buffers
Process management	Monitor, control, correct, decision support, tracking, alarms, tolerances
Product tracking and genealogy	Visibility, status, who is working on what components, suppliers, lots, serial numbers, environments, alarms, rework steps, exceptions, history, tracing, usage
Performance analysis	Up-to-the-minute status, results, history, measurements, utilisation, availability, cycle time, conformance to schedule, performance to standards, parameters, reports
Quality management	Analysis, measurement, collecting, quality control, identifying problems, correlation, symptoms, actions, results, tracking, inspection
Document control	Forms, instructions, recipes, drawings, standard procedures, programs, batch records, EC notices, "as planned" and "as built"
Data collection/acquisition	Interfaces, links, production/parametric data, forms, scanned transaction records, other collected data

Source: Hirschmann Electronics, Inc.

There are hurdles to these trends such as cultural acceptance, reliability and bottlenecks. Also, a lack of networking standards has impeded the pace of acceptance and adoption. Industrial systems must have a higher degree of robustness and reliability than enterprise systems. Rebooting your office PC at your desk and rebooting a machine connected to an entire shop floor have significantly different ramifications. Manufacturing bottlenecks can occur at several levels; Intrinsyc's software is responsible for enhancing reliability at the network and device level. Overall, we expect manufacturers to increasingly accept networked applications and that cost savings and information needs will be the primary drivers of change. Many of these industrial manufacturing firms will require the specialized expertise of solutions provided by embedded software firms.

COMPETITIVE ENVIRONMENT

The embedded software competitive environment is aggressive, diverse and fragmented.

Based on the scope and relative immaturity of the Internet appliance market, the embedded software competitive environment is aggressive, diverse and fragmented. Intrinsyc's competitors include internal development teams, professional engineering service firms, embedded developers at larger software companies such as Microsoft, Sun Microsystems, Red Hat (RHAT, NASDAQ), and other embedded software specialists. The largest embedded developer, Wind River Systems, offers a proprietary operating system called VxWorks. Intrinsyc does not offer a proprietary operating system; its product solutions are designed to work in conjunction with embedded Windows and Linux operating systems. Intrinsyc's goal is to be operating system agnostic. Beyond device level competition, Intrinsyc competes in the broader Internet-enabled networking arena, where networking giants such as Nortel Networks (NT, TSE) and Cisco Systems (CSCO, NASDAQ) also represent potential competitive threats.

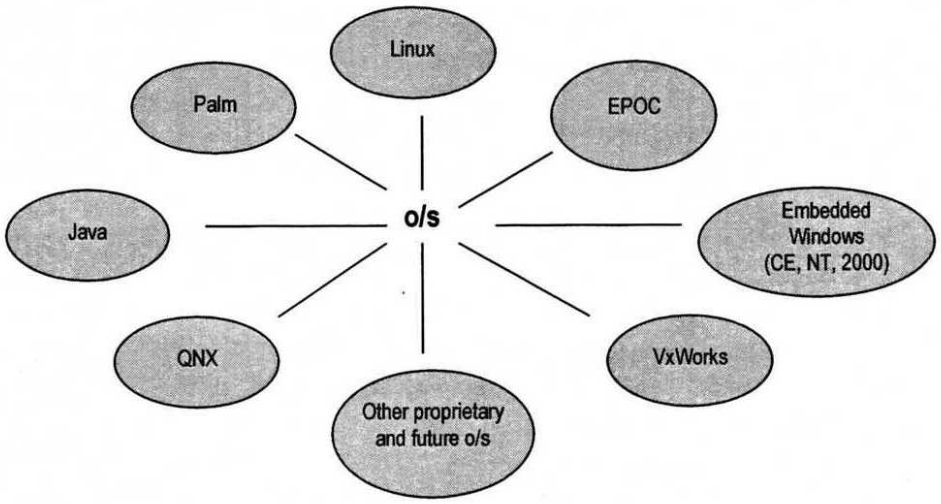
Intrinsyc has a number of competitors in the reference hardware platform arena including Advantech, ADS, Stellcom and Embedded Planet that compete directly. To date, Intrinsyc's competitive advantage has been its ability to provide an integrated complete solution to its client base.

Competitive forces can be grouped into two categories:

1. companies offering solutions using operating systems that Intrinsyc does not offer, including proprietary systems, Palm, EPOC from Symbian, Java from Sun Microsystems, VxWorks from Wind River Systems, VRTX from Mentor Graphics; and
2. companies offering solutions for embedded Windows and Linux operating systems for which Intrinsyc does offer solutions.

In the PC-based world, Windows is the dominant operating system. Among the many reasons for this is the fact that there are numerous applications that have been developed for Windows. Conversely, the embedded software market is an open environment. Linux has emerged as a growing operating system platform utilized by embedded systems users. The reasons for this includes broad platform compatibility, an available pool of developers, lower upfront license fees, as well as vendor independence. A growing number of Microsoft supporters and partners are now seeking to ensure interoperability with alternate operating systems such as Linux to broaden revenue channels and device use.

Exhibit 4. Summary of Operating System Alternatives



Source: Yorkton Securities Inc.

Eventually, small cheap processors will allow for standardized operating systems in most applications.

A company may choose a proprietary operating system for a variety of reasons including the desire for lower costs, power and memory constraints, or limited functionality needs. As hardware costs decrease and processing power increases, these reasons will decrease in importance. Eventually, small cheap processors will allow for standardized operating systems in most applications.

The Palm operating system from Palm Corp. (PALM, NASDAQ) is gaining acceptance among small devices as it has been adopted by the Handspring Company (HAND, NASDAQ) and others. We also believe that microprocessors utilizing Sun's object-oriented Java operating system are increasing in popularity and that at some point Intrinsyc will offer products for this operating system. Java is a general purpose programming language that is considered well suited for use on the World Wide Web.

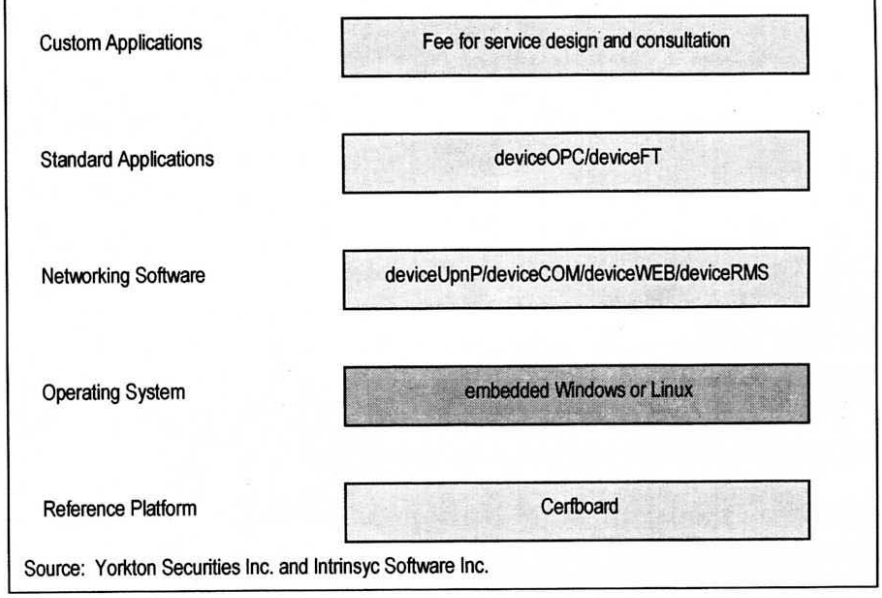
Intrinsyc's key competitive differentiation is its ability to provide a complete solution to customers seeking networked embedded solutions. These include both hardware and application design abilities. We note that many embedded developers offer low level connectivity while Intrinsyc's goal is to remain at a leading technological edge.

PRODUCTS

Exhibit 5 illustrates Intrinsyc's offerings and where it fits in the value chain. A common "solution" sale will include design and customization revenue of $25,000 to $500,000, maintenance and support of up to 20% or $100,000 annually, plus run-time royalty licensing revenue dependent on product sales of anywhere from $50,000 to over $500,000. Run-time license revenue is often measured by number of CPUs sold with Intrinsyc's software. For Intrinsyc to grow and mature, it must continue to invent and design useful product software. Intrinsyc's basic toolkits sell for anywhere from $5,000 to $150,000 depending on the number of license seats. Intrinsyc also generates revenues from training personnel at OEM's in embedded programming and design.

For Intrinsyc to grow and mature it must continue to innovate and design useful product software.

Exhibit 5. Intrinsyc Solutions



Source: Yorkton Securities Inc. and Intrinsyc Software Inc.

Networking Software

deviceCOM for Windows and Linux

Intrinsyc's deviceCOM was designed to enhance the robustness of DCOM (Distributed Component Object Model) in mission-critical environments such as industrial applications.

DCOM is a set of Microsoft concepts and program interfaces in which client program object can request services from server program objects on other computers in a network. DCOM is based on the Component Object Model (COM), which provides a set of interfaces allowing clients and servers to communicate within the same computer (that is running Windows 95 or a later version).

Intrinsyc's deviceCOM software enables developers to rapidly create applications that run seamlessly on multiple embedded devices and link to desktop and enterprise networks. Intrinsyc's deviceCOM was designed to enhance the robustness of DCOM (Distributed Component Object Model) in mission-critical environments such as industrial applications. An implementation of the Linux operating system will be available in beta format in December 2000

DCOM is proven in a desktop environment. It is not well adapted for use in specialized environments, such as industrial automation or wireless networks. Intrinsyc's deviceCOM provides a COM-compatible framework functionally transparent to DCOM that offers a solution within industrial applications. The company is in the process of filing a patent application for its deviceCOM software system.

deviceUpnP

deviceUpnP is an implementation of the Universal Plug and Play open standard protocol that allows devices to automatically announce their presence on a network and eliminates the need to manually configure new software. As a network services discovery technology, this product allows for a reduction in IT staff time devoted to installations and represents cost saving to most enterprises or factories. This is currently only available for Windows O/S.

deviceWEB WebSuite

deviceWEB software is designed to transform consumer, commercial and industrial electronics devices into standard Internet web servers. deviceWEB-equipped products are visible on the Internet or on a company's Intranet via a standard web browser. With deviceWeb, a standard browser on any PC can be used to access all applications, updates and diagnostics. Intrinsyc includes an HTML browser for remote management as part of this product.

deviceRMS software is designed to remotely manage large groups of embedded Windows devices over the Internet automatically and simultaneously.

deviceRMS WebSuite

This software is designed to remotely manage large groups of embedded Windows devices over the Internet automatically and simultaneously. Developers may remotely configure, manage and monitor a network of embedded Windows devices using a standard browser. Remote management per deviceWeb is a single node at a time while deviceRMS combines autodiscovery and device management in groups. A number of competitors exist in the remote management product arena including GoAhead Software, SpyGlass Inc, Rapid Logic (recently acquired by Wind River) and BSQUARE Corporation. A number of telecom vendors also have proprietary product offerings.

Specialized Industrial Application Software

deviceOPC

OLE for Process Control (OPC) is a standard to simplify the interactions between client and server software across vendors and platforms in the industrial automation marketplace; it also has applications in the enterprise environment. deviceOPC is a development toolkit that extends the benefits of OPC to headless systems with smaller memory capabilities, such as Internet devices and information appliances. Through exposing the OPC framework in a standard method, deviceOPC enables devices to efficiently collect data and make it visible to systems at a higher level. deviceOPC is available for embedded Windows and will be available as a beta version for Linux in December 2000.

deviceFT

deviceFT represents tools that adds fault tolerant features to applications running in Windows NT and CE-based products and systems. Application faults are handled more smoothly and efficiently than with traditional hardware techniques. The application is important within industrial applications where a higher degree of system robustness is required than compared to an enterprise desktop PC.

Internet Application Reference Platform

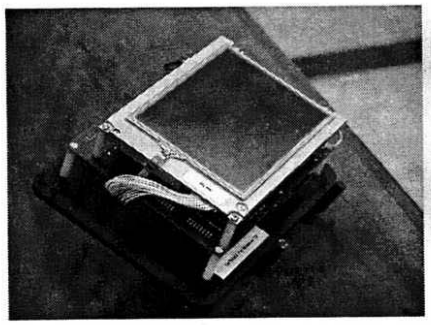
CerfBoard

The CerfBoard product provides a reference design platform for clients who do not posses a hardware appliance for their existing and or future needs. The CerfBoard includes an Intel StrongARM processor and may be preloaded with either Embedded Windows or Linux. A reference design exists with and without user-interface capabilities. The headless (non-user interface) CerfBoard is approximately six square inches. All CerfBoard versions include 3 serial ports for connectivity and may include audio input and output jacks. The CerfBoard offers Ethernet, USB, LCD and GPIO ports. Intrinsyc has developed key device driver software that allows a wide range of external peripherals to be immediately

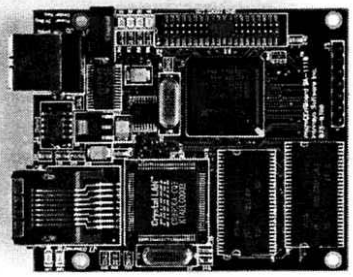
supported. Commercialization of CerfBoard for Linux, the Linux-based version of the company's CerfBoard product, is expected shortly.

Intrinsyc has enjoyed over two dozen client design wins with this product including Siemens Building Technologies. Most recently, TouchStar, a unit of Williams Communications (WIL, NYSE), chose to utilize Intrinsyc's hardware platform and software for its next generation of industrial PDAs while concurrently dropping its internally developed line.

Exhibit 6. CerfBoard Platforms



PDA kit



Headless PDA kit

Source: Intrinsyc Software Inc.

ANTICIPATED PRODUCT EVOLUTION

The company's research and development team performs two primary functions: (i) the support and enhancement of the company's existing products; and (ii) the development of new products. Both employees and subcontractors undertake research and development activities. We anticipate that Intrinsyc will continue to expand its product suite across Linux applications as indicated above. We would further anticipate the company to expand its products into Java-based device languages, as we believe Java-based object-oriented embedded programming will gain in popularity.

We are not aware of any direct competitors for several of its products including deviceCOM and deviceFT, but given the existing environment we believe that competitors could appear. We believe a critical success factor for Intrinsyc is the continued expansion of its product suite and continued innovation of new products across its targetted markets.

SIGNIFICANT RELATIONSHIPS

Case Studies

Intrinsyc's technologies have been utilized in diverse products, including:

- building automation systems: security panels, air conditioning/heating systems, and elevator controllers;
- factory floor controllers: robots, monitoring systems, and user control panels;

- warehousing systems: bar code scanners and handheld computers;
- mobile in-vehicle computers: dispatch systems and entertainment systems;
- handheld companions: PDAs;
- automated car wash systems; and
- vending machines kiosks.

We consider it significant both strategically and operationally that customers remain with Intrinsyc as their embedded software needs increase.

The examples below highlight some of the uses of Intrinsyc's product suite and its capabilities. As a relatively small firm, Intrinsyc's flexibility and client responsiveness are integral to client satisfaction and continued success. We consider it significant both strategically and operationally that customers remain with Intrinsyc as their embedded software needs increase.

Ford Motor Company

The Ford Motor Company (F, NYSE) commissioned a new manufacturing plant, which was to use OPC-based technology deployed on Window NT-based machines to collect production data for analysis. In looking to enhance the plant system's reliability, Ford chose Intrinsyc to apply technology related to deviceCOM and deviceOPC. The toolkit software increased reliability and helped to reduce downtime and expensive work stoppages. Intrinsyc has successfully leveraged this opportunity into other Ford plants and is working to develop enhanced network solutions for Ford plants.

Eaton Inc.

The freight-shipping unit of Eaton was developing an intelligent in-vehicle computer to display truck data, manage tasks and run third party applications. The company required an open architecture solution such that third party applications could be integrated onto the in-vehicle platform. The company did not have the expertise to design and create a functional product. Intrinsyc defined the system's requirements, designed the overall software architecture, incorporated its deviceCOM, deviceOPC and deviceFT technologies and created a robust open standard onboard computer.

Siemens AG

The Automation and Drives (A&D) unit of Siemens is moving from proprietary operating systems in its industrial manufacturing unit to open architecture Embedded Windows-based environment. By using a standard operating system, Siemens sought to empower OEMs in developing their own applications quickly to add more functionality.

A&D has selected Intrinsyc to supply Siemens' SIMATIC Human Machine Interface panels with customized embedded software. Siemens' ships approximately 100,00 flat panel devices annually.

Intrinsyc has also worked with the Building Automation unit of Siemens in providing additional strength to its networked building climate and condition controllers. We believe that Intrinsyc enjoys a positive working relationship with Siemens and is developing new core products with Siemens' units.

In the nascent embedded software market, many of Intrinsyc's suppliers and marketing partners such as Microsoft and BSQUARE are also its competitors.

Key Suppliers

Intel

In addition to being a key supplier, Intel has played a significant role in providing referral business related to embedded software contracts for Intrinsyc.

Intrinsyc has worked with Intel since mid 1997. Intel supplies Intrinsyc with its semiconductor chips utilized in the CerfBoard line. Intrinsyc has worked closely with both Intel and Hitachi in developing its CerfBoard reference platform. Shortages in memory and processing chips could potentially impact both pricing and sales of Intrinsyc solutions. We note that although the bulk of sales utilize Intel semiconductors, Intrinsyc has also sourced chips from Hitachi.

We believe that it is important for Intrinsyc to maintain a positive relationship with Intel because, in addition to being a key supplier, Intel has played a significant role in providing referral business related to embedded software contracts. Intrinsyc is cited within Intel literature and on Intel's external website as an embedded software developer.

Microsoft

Intrinsyc's initial solutions were designed to operate in a Windows environment. Part of the reason for this is that programmers with Microsoft experience can leverage their existing knowledge under Microsoft CE. Embedded Windows is offered on all of Intrinsyc's platforms. We believe that Intrinsyc has a healthy relationship with this supplier and that Microsoft is keen on working with industry participants to propagate its operating software and ensure that it is interoperable. We note that although Microsoft is a supplier to Intrinsyc it is also an existing competitor in embedded solutions. Changes to Embedded Windows could render portions of Intrinsyc's existing software suite obsolete. Furthermore, delays in the shipment of new versions of Embedded Windows may impact Intrinsyc's revenues. We note that the next version release of Windows CE is anticipated to be a year away.

System Integrators

BSQUARE Corporation is a supplier of Embedded Windows-based software products and services for PC Companions and Internet appliances. In April 1999, BSQUARE and Intrinsyc announced a strategic alliance where the two companies would cross-license technology for the industrial automation market. BSQUARE is a systems integrator for Intrinsyc, with the license to incorporate and distribute deviceCOM, CerfBoard, and other products. As a value-added reseller, Intrinsyc offers BSQUARE's CE Xpress development kits, which are low level development kits for embedded Windows.

MANAGEMENT

We consider Mr. Spratt's vision and market knowledge integral to the execution of Intrinsyc's near and medium-term strategic focus.

Derek Spratt, CEO and Chairman: Mr. Spratt has served as CEO since April 1996, and until September 2000 he was also President of Intrinsyc. Prior to joining Intrinsyc, he was Executive Vice-President of PCS Wireless (now Unique Broadband Systems (UBS, CDNX)) from April 1993 to January 1996. We consider Mr. Spratt's vision and market knowledge integral to the execution of Intrinsyc's near and medium-term strategic focus.

Neil McDonnell, President and COO: Mr. McDonnell joined Intrinsyc in September 2000 after serving as Executive Vice-President at Plexus Systems Design Limited. Prior to working at Plexus, McDonnell was the President of dba Telecom Inc. Mr. McDonnell has also held positions at Epic Data (EKD, TSE), Nortel and Dynapro.

Rod Campbell, CFO: Prior to joining Intrinsyc in April 1999 Mr. Campbell was Director, Knowledge Based Business for the Canadian Imperial Bank of Commerce (CM, TSE) from June 1990 to March 1999.

David W. Monroe, Vice President, Sales and Marketing: Mr. Monroe joined the company October 23, 2000. Mr. Monroe was previously based in the US with enterprise relationship management firm RedCelsius Inc. and was with Plexus Systems Design prior to that engagement.

Bill Gordon, Vice-President Research and Development: Mr. Gordon was promoted to this role in October 2000. He joined Intrinsyc as a Software Architect in 1997 after spending seven years with MacDonald Dettwiler & Associates Ltd. (MDA, TSE).

Exhibit 7. Management Share Holdings

Derek Spratt, CEO, Age 39	696,733 common shares 757,000 stock options
Neil McDonnell, President & COO, Age 42	150,000 stock options
Roderick Campbell, CFO, Age 35	14,446 common shares 275,000 stock options
David W. Monroe, VP, Sales and Marketing	75,000 stock options
Bill Gordon, VP Professional Services	55,000 stock options

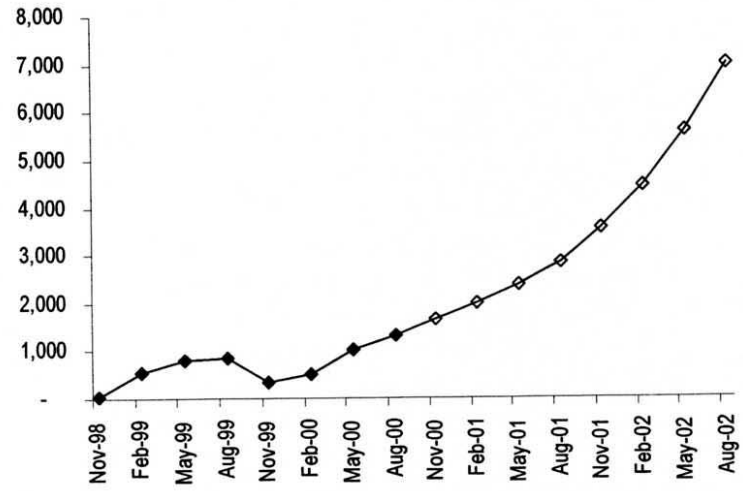
Source: Intrinsyc Software Inc.

FORECASTS

After generating $2.9 million in operating revenue in F2000, we are forecasting that Intrinsyc will generate $8.9 million and $20.6 million in F2001 and F2002, respectively.

After generating $2.9 million in operating revenue in F2000 we are forecasting that Intrinsyc will generate $8.9 million and $20.6 million in F2001 and F2002, respectively. This represents annual growth of 206% and 131% in F2001 and F2002. Exhibit 8 shows the firm's quarterly history and our forecasts. We expect Intrinsyc to display somewhat lumpy revenue growth in the near term as it migrates to larger contracts and customers. Investors in the firm should be prepared for a certain level of volatility in quarterly revenue, particularly given the company's existing revenue levels.

Exhibit 8. Quarterly Revenue Forecast



Source: Yorkton Securities Inc. and Intrinsyc Software Inc.

Intrinsyc will begin reporting gross margin separately in its financial statements going forward. We estimate that margins related to software, services and hardware are approximately 90%, 25% and 50%, respectively, resulting in a blended margin of approximately 45% to 50% historically. As the company migrates to larger design contract wins, we expect the proportion of software revenue to increase and margins to rise. We are forecasting blended gross margin of 49% and 54% in F2001 and F2002.

We forecast that expenses, including selling, research and development and administration, to increase correspondingly at a slower rate such that Intrinsyc turns earnings positive in late F2002. We are forecasting earnings (losses) per share to improve from an actual ($0.16) per share in F2000 to ($0.09) in F2001 and $0.00 in F2002.

VALUATION

We consider Intrinsyc to be shifting from a development stage firm to an operating firm and thus use several conventional metrics when arriving at an appropriate target.

Intrinsyc is currently trading at around 16 to 20 times current year revenues. Extending a multiple of 18x out by one year, we would arrive at a target of price of $11.80. Our group of embedded software development companies (Exhibit 11) are trading at around 6x trailing revenues with leading companies trading at 10x to 15x. The average growth rate for the group of embedded developer companies is approximately 64% compared to Intrinsyc's compounded revenues growth rate of 163%. Given its growth rate and market potential a case can be made for the company to trade at a premium relative to other embedded software developers. Furthermore, many of its competitors including those with leading multiples have tied themselves to one operating system solution while Intrinsyc has sought to be agnostic and open to new platforms, thereby expanding its revenue opportunities.

We believe that the market looks at Intrinsyc as a hybrid of an embedded software firm and an Internet infrastructure networking firm rather than as a pure embedded software company. Advanced networking firms such as Liberate Technologies (LBRT, NASDAQ) and Resonate Inc. (RSNT, NASDAQ) are trading at much higher valuations than embedded developers. Liberate provides information appliance manufacturers software to Internet-enable their products. Resonate develops and markets a family of software products and services that monitor, manage and control computer networks, server systems, and Internet, intranet and extranet applications. This group of companies is currently trading at an average of 34x current year revenues. Our view that Intrinsyc is trading as a hybrid is supported by the networking technology Intrinsyc offers for its targetted verticals. Intrinsyc's deviceCOM, deviceRMS and fault tolerance products all enhance network solutions. Using a combined average of embedded software firms and network infrastructure firms of 22x revenue one year out, we would arrive at a target of $14.39.

Exhibit 9. Discounted EPS Table

	2001E	2002E	2003E	2004E
Revenue	**$8,864**	**$20,563**	**$44,872**	**$71,795**
Revenue growth		132%	118%	60%
Earnings	($2,609)	$101	$4,868	$12,091
		nmf	nmf	148%
	($0.09)	$0.00	$0.11	$0.28
Forward valuation multiple			60	
F2002 value			17.03	
Discounted back to calendar 2001 at 50%			$7.22	

Source: Yorkton Securities Inc.

Exhibit 9 summarizes our discounted EPS valuation. Valuing the company via a discounted EPS multiple gives us a valuation of $7.22 at the end of calendar 2001. Our valuation assumes that, at the end of F2003, Intrinsyc will trade at a 60 times forward multiple of fully diluted earnings of $0.28 per share. This 2003 share price discounted back to calendar 2001 year-end at 50% gives us a $7.22 target.

Exhibit 10. Discounted Cash Flow Calculation

	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Revenue	$8,864	$20,563	$44,872	$71,795	$107,692	$150,769	$196,000	$245,000	$306,249	$382,812	$482,343	$607,752
Operating expenses	7,586	11,749	21,310	36,615	54,923	76,892	99,960	124,950	156,187	195,234	245,995	309,954
Net earnings	(2,609)	101	4,868	12,091	18,127	25,422	33,151	41,586	52,130	65,311	82,418	103,973
Operating cash flow	(3,128)	(1,516)	2,424	11,016	16,797	23,786	31,150	39,145	49,162	61,711	78,060	98,705
Capital spending	(500)	(600)	(1,200)	(1,440)	(1,872)	(2,434)	(3,164)	(4,113)	(5,347)	(6,951)	(9,036)	(11,747)
FCF	(3,628)	(2,116)	1,224	9,576	14,925	21,353	27,986	35,032	43,816	54,760	69,024	86,959
												869,588
Terminal value multiple		10	10	10								
Long term equity discount		12%	15%	18%								
PV of cashflow, end of 2001		$367,183	$283,664	$221,304								
Fully diluted shares outstanding		38,894	38,894	38,894								
Value per share		9.44	**7.29**	5.69								

Our discounted cash flow analysis gives us a valuation of $7.29. This is based on an equity discount rate of 15%, 10 year compounded annual revenue growth of 35% and a terminal value of 10 we come to our value of $7.29. To offer some sensitivity to this valuation, altering the discount rate by plus or minus 3% would yield values of $5.69 and $9.44. See Exhibit 10.

Our $7 target is based on the more conservative valuation methodologies of discounted earnings multiples and discounted cash flow analysis. We note that there is potential upside should the market fully recognize Intrinsyc as a network infrastructure firm rather than an embedded developer. One catalyst to this recognition would be for Intrinsyc's software to become standard across any one of its targetted verticals. For instance, we note that the possibility for deviceCOM to become an industrial automation standard exists while at the same time noting that changes in Microsoft's operating system could not only preclude this but make some of Intrinsyc's software redundant. Another catalyst would be for any of its licensees to generate a blockbuster product, which would result in Intrinsyc sharing this success.

SUMMARY

Investment Opportunity

Intrinsyc Software develops and markets embedded software products for industrial and commercial applications. The market for its design solutions is growing rapidly. Leading consulting firms are forecasting that Internet access via Internet appliance will eventually exceed PC-based access. Furthermore, intelligent networked devices are gaining growing acceptance within industrial and commercial applications. Intrinsyc is poised to take advantage of this market expansion through its expertise in the embedded software arena.

Investment Challenges

The embedded software market is a highly competitive and a technologically evolving industry with myriad standards. Changes in technology or product standards, including changes to the Window CE operating system, could render some or all of Intrinsyc's products obsolete. At the company level, Intrinsyc has a limited operating history and a historical reliance on large clients. Furthermore, the company remains relatively small compared to competitors that have significantly deeper resources. Many of Intrinsyc's existing competitors are smaller entities that are consolidating to gain critical mass.

CONCLUSION

We believe that Intrinsyc is poised to take advantage of the market opportunity before it. We expect the company to achieve our forecasts for revenues of $8.9 million and $20.6 million and that it can expand its product line as anticipated. We have a Strong Buy recommendation and an $7.00 target on Intrinsyc.

GLOSSARY OF COMMONLY UTILIZED EMBEDDED SOFTWARE TERMS

COM – Component Object Model, Microsoft's framework for developing and supporting program component object. Microsoft's Object Linking and Embedding (see OLE below) provides services for the compound document that users see on their display. COM provides the underlying services of interface negotiation, life cycle management (determining when an object can be removed from a system), licensing, and event services (putting one object into service as the result of an event that has happened to another object).

Component – an identifiable part of a larger program or construction, can be a re-usable program or building block.

CORBA – Common Object Request Broker Architecture, a framework for the interoperation of distributed objects in a network that is supported by other major companies (other that Microsoft) in the computer industry.

DCOM – Distributed Component Object Model, a set of Microsoft concepts and program interfaces in which client program object can request services from server program objects on other computers in a network. DCOM is based on the Component Object Model, which provides a set of interfaces allowing clients and servers to communicate within the same computer (that is running Windows 95 or a later version). DCOM is Microsoft's version of CORBA (see above).

Embedded system – a microprocessor-based system that is incorporated into a larger device and is dedicated to responding to external events by performing specific tasks.

Ethernet – most commonly installed local area network technology.

CGI – Common Gateway Interface, standard method for a Web server to pass Web user's request to an application program and to receive data back to forward to the user. Each time it is run, it runs as a separate process with its own address space, resulting in extra instructions that have to be performed, especially if many instances of it are running on behalf of users. It is part of the Hypertext Transfer Protocol protocol.

GPIO – General Purpose Input Output.

ISAPI – Internet Server Application Program Interface, a group of Windows program calls that let you write a Web server application that will run faster than a Common Gateway Interface application.

Linux – a freely distributable operating system derived from UNIX.

Metcalfe's Law – The community value of a network grows as the square of the number of its users increases.

Object – (In object-oriented programming) objects are the things you think about first in designing a program and they are also the units of code that are eventually derived from the process. In between, each object is made into a generic class of object and even more generic classes are defined so that objects

can share models and reuse the class definitions in their code. Each object is an instance of a particular class or subclass with the class's own method or procedures and data variable. An object is what actually runs in the computer.

Object-oriented programming (OOP) – programming concept that is organized around "objects" rather than "actions," data rather than logic. Java is a popular object language.

OLE – Object Linking and Embedding, a Microsoft communications protocol that allows separate applications to share data. (e.g., a graph from Excel used in a Word file)

OPC - OLE for Process Control, an industry standard that defines method for exchanging real-time automation data among PC-based clients using Microsoft operating systems.

RISC – Reduced Instruction Set Computer, is a microprocessor that is designed to perform a smaller number of types of computer instructions so that it can operate at a higher speed.

RTOS – Real Time Operating System

SNMP – Simple Network Management Protocol.

UpnP – Universal Plug and Play.

UNIX – popular early standard operating system developed by Bell Labs.

USB – Universal Serial Bus.

Windows CE - Microsoft operating system designed for embedding devices or small devices.

Windows DNA – Windows Distributed interNet Applications Architecture, a marketing name for a collection of Microsoft technologies that enable the Windows platform and the Internet to work together. DNA technologies include ActiveX, Dynamic HTML and COM.

SELECTED COMPANIES MENTIONED IN THIS REPORT

BSQUARE Corporation (BSQR, NASDAQ): BSQUARE supplies software products and services for the development and use of PC Companions, Internet appliances, industrial automation devices, Windows-based terminals and other mobile and wireless intelligent devices.

Citrix Systems, Inc. (CTXS, NASDAQ): Citrix is a supplier of application server products and technologies that enable the effective and efficient enterprise-wide deployment and management of applications designed for Microsoft Windows operating systems.

Intel Corporation (INTC, NASDAQ): Intel is the world's largest chip maker, it is also a leading manufacturer of computer, networking and communications products.

Lineo Inc.: Lineo, Inc. provides Linux-based embedded systems, real-time and high availability solutions that include software, hardware designs and professional services.

Lantronix, Inc. (LTRX, NASDAQ): Lantronix designs, develops and markets network device servers that enable almost any electronic device to be accessed, managed, controlled, reprogrammed and configured or reconfigured over the Internet or other networks using standard protocols for connectivity, including fibre optics, Ethernet and wireless.

Liberate Technologies, Inc. (LBRT, NASDAQ): Liberate is a leading provider of a complete software platform for delivering Internet-enhanced content and applications to information appliances, such as television set-top boxes and game consoles. Information appliance manufacturers can use its client software to Internet-enable its products.

Micromuse, Inc. (MUSE, NASDAQ): Micromuse develops, markets, and supports a family of scalable, highly configurable, rapidly deployable software solutions that enable fault and Service-Level Management. SLM is the effective monitoring and management of multiple elements underlying an Information Technology infrastructure, including network devices, computing systems and applications, and the mapping of these elements to the business services they impact.

Red Hat, Inc. (RHAT, NASDAQ): Red Hat develops, deploys and manages Linux and open source solutions for Internet infrastructure ranging from small embedded devices to high availability clusters and secure Web servers.

Resonate, Inc. (RSNT, NASDAQ): Resonate develops and markets a family of software products and services that monitor, manage and control computer networks, server systems, and Internet, intranet and extranet applications.

Wind River Systems, Inc. (WIND, NASDAQ): Wind River provides software development tools, real-time operating systems, and advanced connectivity for use in products throughout the Internet.

Exhibit 11. Comparable Company Valuations

Company	Ticker	Curr.	FYE	Share Price 9-Nov	52-Week High	52-Week Low	Shares O/S (mm)	Market Cap. ($mm)	Forecast EPS [1] FY1	Forecast EPS [1] FY2	Forecast P/E FY1	Forecast P/E FY2	Sales ($mm) T12M	Sales ($mm) LQA	Forecast Sales ($mm) Y1	Forecast Sales ($mm) Y2	Price/ Sales T12M	Price/ Sales Run Rate	Price/ Sales FY1	Price/ Sales FY2	Gross Margin T12M	Year-over-Year Sales Growth (CAGR) Historical 1 Year	Historical 2 Year	Forecast FY1	Forecast FY2
Embedded Software Competitors																									
BSQUARE Corp.	**BSQR**	US$	Dec.	$16.38	$56.50	$12.00	33.5	$549	$0.21	$0.26	78	63	$56	$67	$63	$85	9.8	8.3	8.7	6.5	52%	62%	67%	57%	46%
Lantronix Inc.	**LTRX**	US$	Jun.	5.44	12.38	3.88	35.8	195	NA	NA	NA	NA	46	48	NA	NA	4.2	4.0	NA	NA	52%	36%	26%	NA	NA
Microware Systems Corp.	**MWAR**	US$	Mar.	1.63	11.50	1.00	15.9	26	(0.23)	NA	NMF	NA	13	13	NA	NA	1.9	1.9	NA	NA	77%	-19%	-13%	NA	NA
Mentor Graphics Corp.	**MENT**	US$	Dec.	24.44	25.00	8.38	64.2	1,568	4.17	4.75	6	5	563	568	NA	NA	2.8	2.8	NA	NA	79%	4%	6%	NA	NA
Palm Inc.**	**PALM**	US$	May	57.88	165.00	19.88	565.9	32,751	0.14	0.23	NMF	NMF	1,282	1,604	1,982	3,216	25.5	20.4	16.5	10.2	41%	88%	97%	87%	74%
Ravisent Technologies Inc.	**RVST**	US$	Jun.	3.63	52.00	1.94	16.7	61	NA	NA	NA	NA	20	17	NA	NA	3.0	3.6	NA	NA	51%	-3%	108%	NA	NA
Red Hat Inc.	**RHAT**	US$	Feb.	14.88	151.25	10.63	160.8	2,392	(0.06)	0.05	NMF	NMF	58	74	83	158	41.1	32.3	28.8	15.2	51%	28%	37%	96%	93%
Wind River Systems Inc.	**WIND**	US$	Jan.	46.81	66.13	23.75	72.8	3,406	0.50	0.79	94	59	223	405	436	568	15.3	8.4	7.8	6.0	80%	30%	35%	155%	82%
Average [3]																	**6.2**	**4.8**	**8.3**	**6.2**	**65%**	**18%**	**38%**	**106%**	**64%**
Internet Infrastructure and Advanced Networking Software Firms																									
Citrix Systems	**CTXS**	US$	Dec.	25.25	122.31	14.25	185.7	4,689	0.58	0.73	43	35	425	454	481	599	11.0	10.3	9.7	7.8	103%	68%	78%	32%	28%
Liberate Technologies	**LBRT**	US$	May	19.44	148.50	16.00	103.0	2,003	(0.66)	(0.70)	NMF	NMF	32	38	41	65	62.3	53.2	48.6	30.7	27%	62%	65%	47%	53%
Micromuse	**MUSE**	US$	Sept.	134.94	216.75	48.50	35.3	4,763	0.71	1.07	191	126	124	165	212	327	38.6	29.0	22.5	14.6	63%	105%	150%	265%	137%
Resonate Inc.	**RSNT**	US$	Dec.	43.50	50.56	28.56	27.0	1,173	(1.36)	(0.80)	NMF	NMF	18	25	21	41	65.5	47.9	54.6	28.6	77%	268%	372%	117%	103%
Average																			**33.8**	**20.4**					
Simple Average																			***21.1***	***13.3***					
Intrynsic Software Inc.	**ICS**	C$	Aug.	4.70	9.70	0.91	31.4	148	(0.18)	(0.01)	NMF	NMF	3	5	9	21	50.9	28.4	16.7	7.2	45%*	29%	127%	206%	166%

[1] Estimate source for BSQUARE and Wind River is I/B/E/S; Intrinsyc is Yorkton Securities Inc.

[2] Remaining estimates are Zacks.

[3] Palm and Red Hat results excluded from average.

*Estimated by Yorkton

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Intrinsyc Software Inc.
Income Statement
($000)

	Year end August 31				
	1998	**1999**	**2000**	**2001E**	**2002E**
Revenues	$538	$2,232	$2,974	$8,864	$20,563
Cost of revenues	337	1,249	1,574	4,509	9,380
	201	983	1,400	4,355	11,183
Expenses					
Marketing and sales	987	1,178	2,036	3,514	6,803
Administration	1,430	1,278	2,036	2,679	2,908
Research and development (net)	1,168	513	919	1,392	2,038
Other	516	83	-	-	-
Total expenses	4,100	3,052	4,991	7,586	11,749
Operating income/(loss)	(3,900)	(2,069)	(3,590)	(3,231)	(565)
Interest income	25	19	192	622	666
Earnings(loss) before tax	(3,874)	(2,051)	(3,398)	(2,609)	101
Income taxes (reversal)	-	-	-	-	-
Net earnings	($3,874)	($2,051)	($3,398)	($2,609)	$101
Earnings (losses) per share	($0.24)	($0.11)	($0.16)	($0.09)	$0.00
	($0.24)	($0.11)	($0.16)	($0.09)	$0.00
Weighted average shares outstanding	15,869	17,981	21,893	30,470	31,676
Fully diluted weighted average shares	15,869	17,981	27,445	40,501	41,707
Basic shares outstanding, end of period	17,360	19,679	27,229	31,276	32,076
Sales growth y/y		315%	33%	198%	132%
As a % of sales					
Gross margin	n/a	44%	47%	49%	54%
Marketing and sales	184%	53%	68%	40%	33%
Administration	266%	57%	68%	30%	14%
Research and development (net)	217%	23%	31%	16%	10%
Net profit (loss) margin	-720%	-92%	-114%	-29%	0%
Sequential change					
Marketing and sales		19%	73%	73%	94%
Administration		-11%	59%	32%	9%
Research and development (net)		-56%	79%	52%	46%

Intrinsyc Software Inc.
Balance Sheet
($000)

	Year end August 31				
	1998	1999	2000	2001E	2002E
Assets					
Cash and short-term investments	$835	$202	$7,188	$17,161	$16,245
Accounts receivable	315	771	688	1,681	4,104
Inventory	-	38	327	478	700
Prepaid expenses	31	109	64	164	264
Other	173	-	-	-	-
Current assets	1,354	1,120	8,267	19,483	21,312
Capital assets	218	306	725	1,016	1,391
Technology rights and licenses	220	-	-	-	-
Capital and other assets	438	306	725	1,016	1,391
Total assets	$1,792	$1,425	$8,991	$20,499	$22,703
Liabilities and Shareholders' Equity					
Accounts payable and accrued	770	691	690	1,206	2,110
Deferred revenue	-	-	133	133	133
Obligation under capital lease	-	-	16	16	16
Current liabilities	770	691	839	1,355	2,259
Shareholders' equity					
Share capital	8,041	9,804	20,621	34,221	35,421
(Deficit)/surplus	(7,019)	(9,070)	(12,468)	(15,077)	(14,977)
	1,022	735	8,153	19,144	20,444
Total liabilities and shareholders' equity	$1,792	$1,425	$8,991	$20,499	$22,703

Intrinsyc Software Inc.
Cash Flow Statement
($000)

	Year end August 31				
	1998	1999	2000	2001E	2002E
Operations					
Net earnings (loss) for the period	($3,874)	($2,051)	($3,398)	($2,609)	$101
Items not involving cash:					
Depreciation and amortization	257	296	129	209	225
Expenses settled with common shares	31	359	341	-	-
Working capital	(88)	(478)	(29)	(727)	(1,841)
	(3,674)	(1,874)	(2,957)	(3,128)	(1,516)
Financing					
Issue of share capital, warrants and options	4,377	1,405	10,467	13,600	1,200
Repayment of capital lease	-	-	(8)	-	-
Other	(80)	-	-	-	-
	4,297	1,405	10,460	13,600	1,200
Investments					
Purchase/disposal of capital assets	(138)	(164)	(516)	(500)	(600)
	486	(633)	6,986	9,972	(916)
Cash and short-term investments, beginning of period	349	835	202	7,188	17,161
Cash and short-term investments, end of period	$835	$202	$7,188	$17,161	$16,245

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