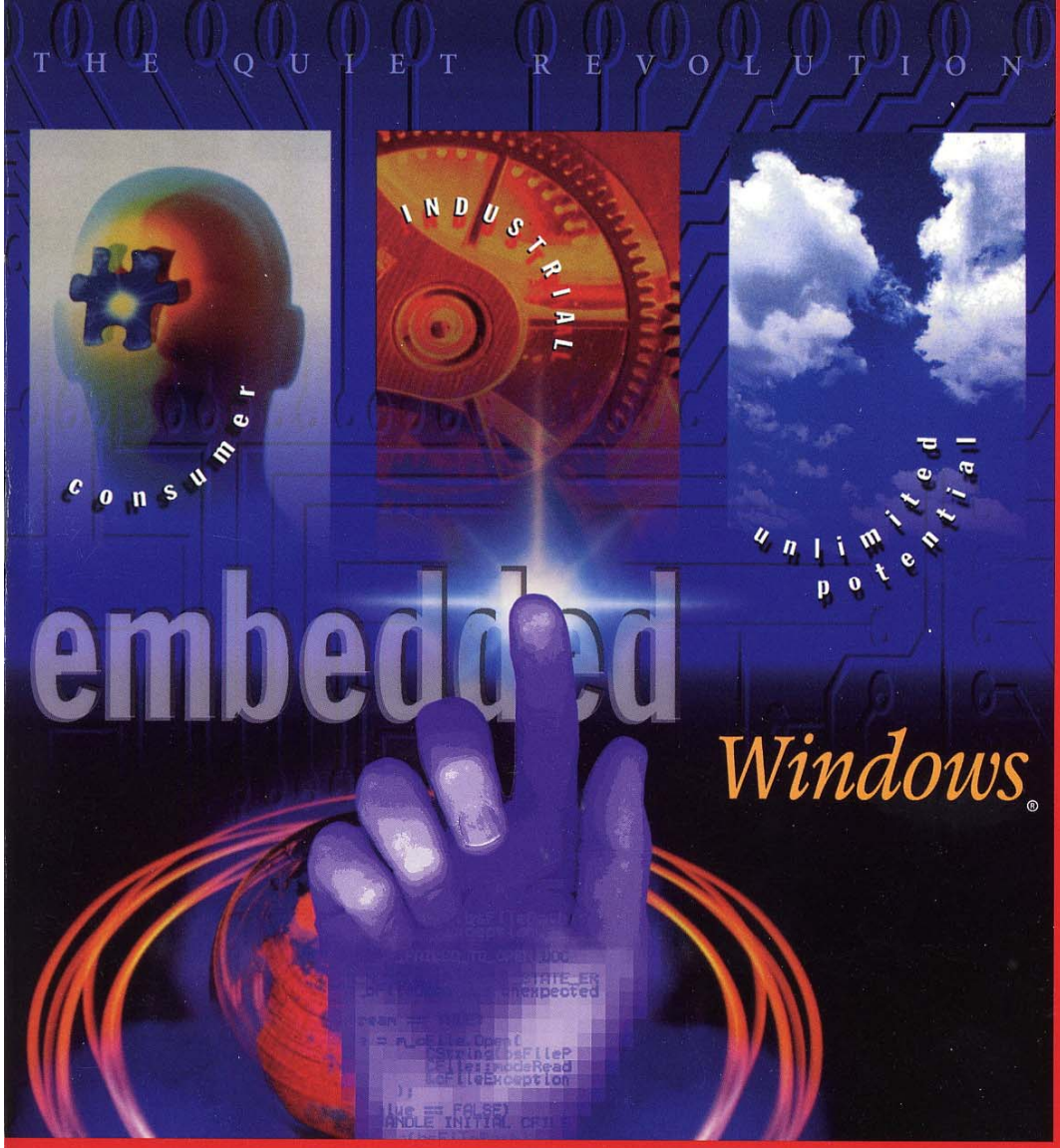


INTRINSYC Software, Inc.

ANNUAL REPORT

1997

Intrinsyc Software, Inc. develops, markets and supports software tools and components for the development of Microsoft Windows®-based embedded systems. These tools and components enable customers to rapidly develop software applications for a wide range of consumer and commercial electronic products that span multiple industries.

Our goal is to deliver technology which will enable our customers to embrace and optimize the emerging software and hardware standards to maximize their productivity. Our customers focus on their core competencies – development of the solution architecture – while we deliver an implementation infrastructure that incorporates and manages the rapid technological advancements inevitable in today's marketplace. This results in faster return-on-investment, improved time-to-market, and unparalleled price and performance.

We are partnering with our customers to deliver the right solutions, leveraging advances in technology today and in the future.

Welcome to the Revolution

We now stand at the threshold of a new and important era in the world of consumer and commercial electronics–the age of embedded computing.

DEREK SPRATT

President & CEO

THE QUIET REVOLUTION

Since the invention of the microprocessor just 25 years ago, exponential growth in the performance and cost-effectiveness of microelectronics has allowed computers of all shapes and sizes to virtually explode into our consciousness and become an integral part of the fabric of our lives. Though most of us are well aware of the obvious and well publicized advances in desktop PCs, Personal Digital Assistants (PDAs), communication via the internet, etc., few of us realize that this is just the tip of a massive iceberg.

It is a little known fact that only 2% of the more than 4.2 billion microprocessors shipped during 1997 went towards the production of desktop PC's. The remaining 98% became part of the hidden world of embedded devices–that is, dedicated computer systems performing essential everyday tasks associated with acquiring, controlling and processing data within a large and diverse group of industries. These include consumer electronics, manufacturing systems, internet web servers, automotive sub-systems, telecommunications networks, medical instrumentation, and retail automation systems, to name just a few.

While all the attention has been focused upon advances in higher profile consumer products, the world-wide market for embedded software has quickly and quietly grown to more than $2 billion annually. This market is expected to reach a staggering $5 billion within the next two and a half years and represents a "quiet revolution" that will profoundly affect each and every one of us daily.

THE MICROSOFT CONNECTION

Microsoft® currently commands a 90% share of the desktop PC market, and is now targeting the embedded computing market as a new growth opportunity.

A key weapon of their "Windows Everywhere" initiative will be the Windows CE 2.0™ operating system, introduced to critical acclaim at Comdex in November of 1997. It is widely accepted that the

adoption of the already well known, and user-friendly, Windows environment by this new market will allow Microsoft to quickly assume a leadership role in the embedded computing market.

Delivering on the Promise

In 1997, Intrinsyc Software Inc. made significant advances toward fulfilling its potential to become a dominant global supplier of embedded systems software technology.

These achievements were a direct result of implementing a calculated 'high risk, high reward' strategy. Rather than looking for ways in which to generate revenues from existing markets that would provide only a modest return on investment, Intrinsyc took a bold and aggressive approach that saw us look into the future and develop new technologies and products *in anticipation of the market*.

By timing the introduction of our new, complementary technologies to coincide with the expected release of Microsoft's Windows CE 2.0, and by correctly identifying the missing pieces of the "Windows Everywhere" strategy and solving the problems elegantly, we now have a real opportunity to deliver on our promise to shareholders of a strong return on their investment.

Perhaps the single most important strategic decision the company made was to initiate the development of Intrinsyc's embedded Windows 'tools suite' in late 1996. Intrinsyc's *Integration Expert*$_{TM}$ (IX), a product aimed at embedded Windows application developers, has greatly facilitated the realization of Microsoft's "Windows Everywhere" dream. Its enabling technology will allow millions of desktop programmers to quickly and easily transfer their skills to the world of embedded computing.

The advent of the 'golden age' of embedded computing is upon us, and nowhere is that more evident than in the successful release of *Intrinsyc IX* to the waiting market in late 1997.

BY TAKING A BOLD AND AGGRESSIVE APPROACH IN 1997, WE NOW HAVE A REAL OPPORTUNITY TO DELIVER ON OUR PROMISE TO SHAREHOLDERS OF A STRONG RETURN ON THEIR INVESTMENT.

Building the Foundations

Throughout 1998, we plan to expand our internal technology development initiatives. We will also continue our proven practice of identifying key concepts and core competencies within small start-up technology firms, acquiring these ideas, and quickly commercializing them.

AS WE ENTER 1998, INTRINSYC'S PRODUCTS ARE BEING DESIGNED INTO A WIDE RANGE OF PRODUCTS BY FORTUNE 100 ELECTRONICS FIRMS.

In 1997, we executed three important technology acquisitions which formed the foundations for our 'component' product lines: web technologies, fault tolerance technologies, and industrial automation technologies. All three were successfully commercialized by our development teams and are expected to generate significant revenues in 1998.

PRODUCTS WITH GLOBAL SIGNIFICANCE

Intrinsyc's embedded web technologies provide world-wide internet access to Windows CE-based consumer and commercial products. End users equipped with only a desktop PC and browser may now connect to remotely located, embedded devices for purposes of control, monitoring or even internal software modification.

For original equipment manufacturers (OEMs), our web technologies offer the ability to provide remote after-sale support and upgrades on the products they sell as well as unique and powerful new ways to network those products.

Microprocessor vendors who are developing Windows CE "systems on a chip" may now offer additional value-added software to their customers by including web access and remote diagnostic capabilities into their hardware-based product lines.

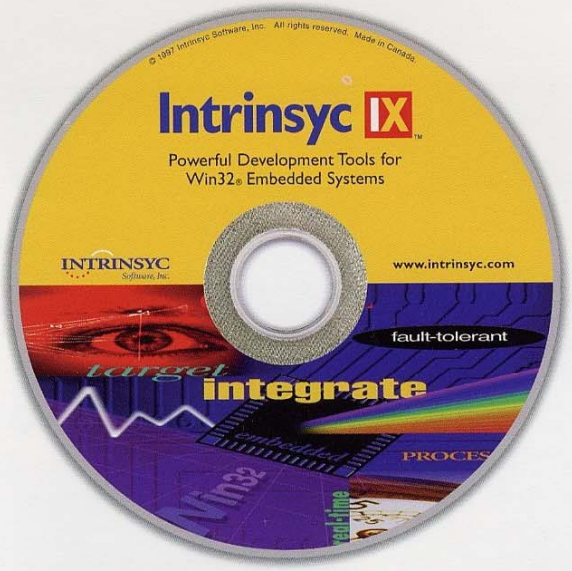
Consumers will benefit directly through unprecedented power and control over the myriad electronic products which form an increasingly large part of their lives.

Intrinsyc's embedded web technologies are poised to achieve a dominant market share, in much the same way that *Netscape*™ revolutionized

the web browser for the desktop PC.

In fact, the parallels are striking as we introduced the world's first CE-based web server, and continue to rapidly consolidate our competitive advantage through the addition of powerful features for a waiting consumer market.

As we enter 1998, Intrinsyc's enabling technologies are already being designed into a wide range of products by Fortune 100 electronics firms.



Fault Tolerance Means Reliability

Since embedded devices–by virtue of their name–are often located in areas with limited and/or difficult access, ensuring that they run continuously and reliably is of paramount importance.

Intrinsyc's *WinFT*™, with its fault tolerant technology, provides a low cost, software-based approach to this common problem. Our first design success with fault tolerance came in the area of telecommunications, where inexpensive PC's are starting to replace the more costly and less flexible proprietary solutions.

In 1998, this technology will be sold to a number of already identified market niches.

Leveraging Our Core Competencies

The first step in the "Windows Everywhere" initiative was taken three years ago in the industrial automation market, when Windows *NT*™ was introduced as a viable operating system platform for monitoring and controlling factory floor manufacturing systems.

Windows CE now promises to make further gains in this area by networking with Windows NT servers which are already in place and by displacing existing proprietary factory floor technologies. In essence, the PC is now being embedded into the sensors and actuators that do the work, rather than just monitoring and interfacing with these devices.

This is an area with massive growth potential, and one in which Intrinsyc has historically had core competencies with Intrinsyc *SP*™. Our focus for 1998 will be the active porting of the SP industrial automation technologies from Windows 95 to the Windows CE platform.

IN 1997, WE EXECUTED THREE IMPORTANT TECHNOLOGY ACQUISITIONS. ALL THREE WERE SUCCESSFULLY COMMERCIALIZED BY OUR DEVELOPMENT TEAMS AND ARE EXPECTED TO GENERATE SIGNIFICANT REVENUES IN 1998.

Front row, left to right:

DEREK SPRATT, P. ENG.(EE)
President & CEO

GEOFF DANZIG, DIPL. EE
Director of Customer Support

FRANKIE MANN, B.F.A., M.F.A.
Director of Product Development

Back row, left to right:

BRUCE FORDE, PH.D.
Executive VP & General Manager

BRIAN ROSE, B.SC.(EE)
VP Sales & Marketing

WILLIAM YU, B.S.M.E., MBA
Chief Financial Officer

JACQUIE TAYLOR, B.SC.(EE)
Director of Marketing

MURRAY DUNCAN, B.SC.
Director of Corporate Communications

Inset:

TOM GILL, CMA
Chief Operating Officer

A WORLD CLASS MANAGEMENT TEAM

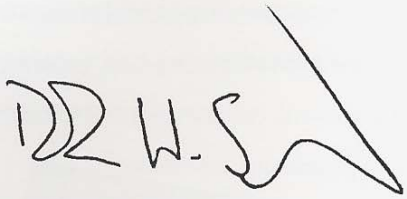
It's no secret that a critical element contributing to the ultimate success of any technology company is the 'intellectual capital' it employs–and Intrinsyc's position at the leading edge has enabled us to attract the very best.

We are proud to have assembled an excellent management team and a talented, dynamic group of developers who collectively hold substantial equity in the company. With a contingent nearing 35 as of December 1997, we continue to enjoy tremendous success in employing highly qualified people to develop, support, and expand our product line and customer base.

LOOKING TO THE FUTURE

As we move from 1997 into 1998, Intrinsyc is evolving naturally from an early stage technology visionary and business start-up to a more mature market share and revenue-focused enterprise.

To close, I would like to take this opportunity to thank all of our investors for their support, confidence and belief in both the people and the concepts embodied in our business model. You have shown vision and courage–and I look forward to sharing with all of you a satisfying and profitable 1998.



DEREK SPRATT

Strategic Alliances

During 1997, Intrinsyc formed and solidified strategic partnerships with well respected industry leaders including Microsoft, Intel, AnnaSoft, and RadiSys, among others.

Intrinsyc Becomes a Microsoft CE Strategic Affiliate

In September, Intrinsyc received First Wave Windows CE Developer status from Microsoft and was also accepted as a Windows CE Systems Integrator. In addition, Microsoft agreed to actively promote Intrinsyc's CE based products in its publications, press releases, web sites and trade shows.

Intrinsyc Technology Selected by Intel

In September, Intrinsyc's Integration Expert software development tools package was selected by Intel for inclusion in its new Pentium-based Embedded Processor Module Development Kits.

Ronald P. Erickson Appointed to Board

In October, Intrinsyc announced the appointment of Mr. Ronald P. Erickson to their Board of Directors. Currently Chairman and CEO of GlobalTel Resources, Mr. Erickson has extensive US investment banking experience and is past Chairman and CEO of Egghead Software Inc., a software reseller with sales approaching $1 billion at the time of his departure.

Comdex Success

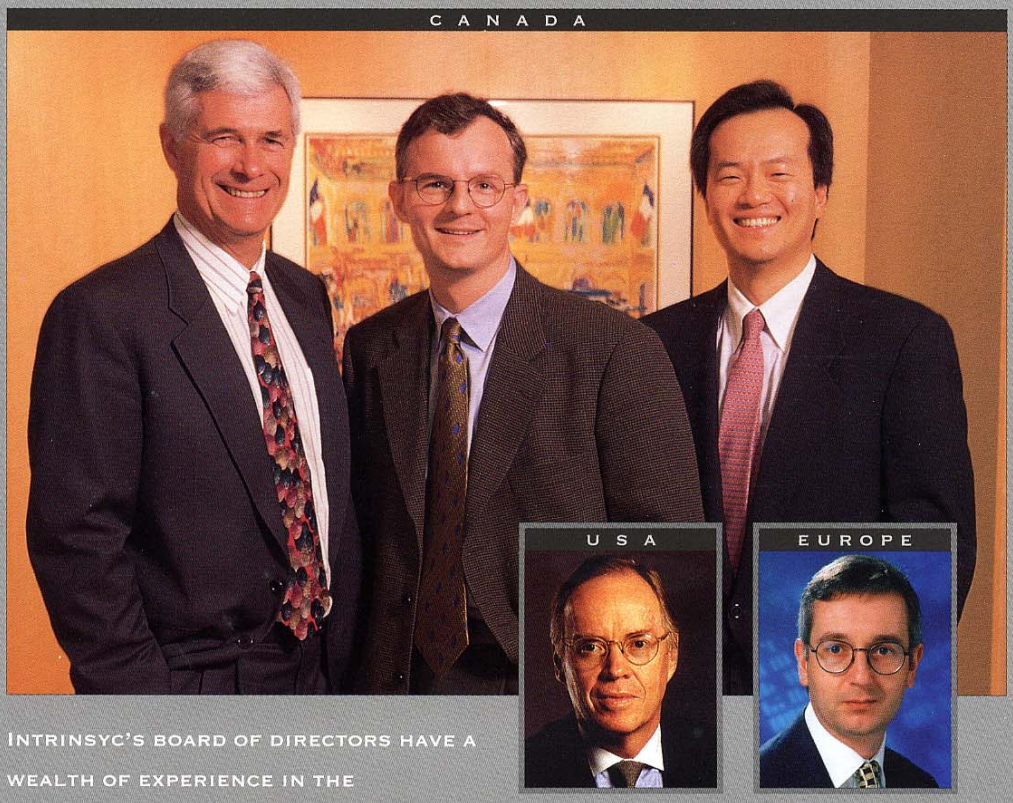
Intrinsyc Software was selected by Microsoft as one of only fourteen exceptional technology companies for exclusive showing in Microsoft's booth at Comdex. This resulted in significant industry exposure to the Company's products and technologies, specifically its Windows CE based Rainbow web technologies and Integration Expert development tools.

Surrender and Cancellation of Performance Shares

In October, 5,670,000 outstanding performance shares were surrendered to the company for cancellation. This meant an approximate 50% increase in the value of each remaining issued share and gave further substance to the Company's stated commitment to sustained long-term growth and shareholder value.

Special Warrant Financing

Also in November, Intrinsyc announced financing of up to $5 million in the form of Special Warrants. The proceeds will be used for expanding product development, marketing, sales and custom engineering services, and acquiring additional complementary technologies.



INTRINSYC'S BOARD OF DIRECTORS HAVE A WEALTH OF EXPERIENCE IN THE INDUSTRY.

(shown left to right)

ROBERT GAYTON PH.D, F.C.A.

Presently Chief Financial Officer of Western Copper, Mr. Gayton earned his Ph.D in Business at the University of California at Berkeley. He is a former partner of Peat Marwick Mitchell.

DEREK SPRATT P.ENG. (EE)

A co-founder and former Executive Vice-President of PCS Wireless, Inc., Mr. Spratt was previously Vice President of Nexus Engineering, and held various management positions within Motorola's wireless data division.

WILLIAM YU B.S.M.E., MBA

Mr. Yu worked in the investment banking and venture capital fields with major Canadian firms prior to joining Intrinsyc.

RONALD P. ERICKSON B.A., M.A., J.D. (USA)

Co-founder, former Chairman & CEO of Egghead Software, Inc., Mr. Erickson is currently Chairman & CEO of GlobalTel Resources, Inc., a telecommunications and networking company operating in fifty countries.

PETER TILSLEY BSC (HONS) (EUROPE)

Intinsyc's Chief Technology Officer, Mr. Tilsley graduated from City University, London with a First Class Honours Degree in Computer Engineering. Founder of the original *Signal Centre* technology upon which *Intrinsyc SP* is based, Mr. Tilsley is currently president of Computer Park Software Ltd.

THE QUIET REVOLUTION

FINANCIAL STATEMENTS

Year ended

August 31, 1997

INTRINSYC
Software, Inc.

To the Shareholders of

INTRINSYC SOFTWARE INC.

We have audited the balance sheet of Intrinsyc Software Inc. as at August 31, 1997 and 1996 and the statements of operations and deficit and changes in financial position 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the *Company Act (British Columbia)*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

/s/ KPMG

CHARTERED ACCOUNTANTS
Vancouver, Canada

October 10, 1997, except
as to note 8(b) which is
as of November 5, 1997

BALANCE SHEET

Year ended August 31, 1997

ASSETS	1997	1996
Current assets:		
Cash	$ 349,067	$ 122,483
Funds held in trust	—	239,990
Accounts receivable	96,988	37,637
Prepaid expenses	25,890	2,636
Share subscriptions receivable	98,530	—
	570,475	402,746
Capital assets *(note 3)*	149,846	40,551
Technology rights and licenses *(note 6(c))*	407,487	—
	$ 1,127,808	$ 443,297

LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 461,611	$ 282,604
Advance from shareholder *(note 4)*	80,000	—
Funds received in advance of the issuance of shares *(note 8(a))*	597,316	239,990
Shareholders' deficiency:		
Share capital *(note 5)*	3,133,777	995,360
Deficit	(3,144,896)	(1,074,657)
	(11,119)	(79,297)
Operations *(note 1)*		
Commitments *(note 6)*		
Subsequent events *(note 8)*		
	$ 1,127,808	$ 443,297

See accompanying notes to financial statements.

On behalf of the Board:

Derek Spratt, *President & CEO* DIRECTOR

William Yu, *Chief Financial Officer* DIRECTOR

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended August 31, 1997

	1997	1996
Cash provided by (used in):		
Operations:		
Loss for the year	$(2,070,239)	$ (602,928)
Items not involving cash:		
Depreciation and amortization	179,683	26,771
Reduction in inventory to net realizable value	—	47,104
	(1,890,556)	(529,053)
Change in non-cash operating working capital:		
Accounts receivable	(59,351)	22,185
Inventories	—	6,961
Prepaid expenses	(23,254)	(583)
Accounts payable and accrued liabilities	179,007	121,335
	(1,794,154)	(379,155)
Financing:		
Proceeds from issuance of share capital	2,138,417	522,178
Share subscriptions receivable	(98,530)	—
Funds received in advance of the issuance of shares	357,326	239,990
Advance from shareholder	80,000	(3,738)
	2,477,213	758,430
Investments:		
Purchase of capital assets	(140,968)	(24,734)
Purchase of technology rights and licenses	(555,497)	—
	(696,465)	(24,734)
Increase (decrease) in cash	(13,406)	354,541
Cash, beginning of year	362,473	7,932
Cash, end of year	$ 349,067	$ 362,473

Cash is comprised of cash and funds held in trust.
See accompanying notes to financial statements.

STATEMENT OF OPERATIONS AND DEFICIT

Year ended August 31, 1997

	1997	1996
Sales	$ 69,036	$ 82,472
Cost of sales:		
Opening inventory	—	54,065
Purchases	35,368	203
Reduction in inventory to net realizable value	—	47,104
	35,368	101,372
Ending inventory	—	—
	35,368	101,372
Gross profit (loss)	33,668	(18,900)
Expenses:		
Marketing and sales (schedule)	381,695	102,884
Administration (schedule)	833,787	287,577
Research and development (schedule)	888,425	193,567
	2,103,907	584,028
Loss for the year	2,070,239	602,928
Deficit, beginning of year	1,074,657	471,729
Deficit, end of year	$ 3,144,896	$1,074,657
Loss per share	$ 0.16	$ 0.09

See accompanying notes to financial statements.

SCHEDULE OF MARKETING AND SALES, ADMINISTRATION AND RESEARCH AND DEVELOPMENT EXPENSES

Year ended August 31, 1997

	1997	1996
Marketing and sales expenses:		
Advertising	$ 16,730	$ 20,902
Automobile	4,290	2,518
Entertainment and promotion	4,043	7,740
Office	45,660	—
Premises	22,785	—
Professional fees	33,413	—
Salaries and commissions	206,486	61,853
Telephone	6,931	—
Travel	41,357	9,871
	$381,695	$ 102,884
Administration expenses:		
Automobile	$ 12,835	$20,710
Bank charges and interest	40,311	4,287
Depreciation and amortization	31,669	26,771
Investor relations	102,907	48,867
Legal and professional	158,355	24,901
Listing and exchange fees	20,843	4,248
Office	50,234	31,505
Postage	7,731	1,892
Premises	65,268	25,473
Salaries and benefits	277,776	75,407
Telephone	34,347	17,577
Travel	29,106	3,443
Utilities	2,405	2,496
	$833,787	$ 287,577
Research and development expenses:		
Amortization	$148,014	$ —
Office	5,372	—
Subcontracted development fees	237,648	—
Refundable investment tax credit	—	49,349
Salaries and benefits	260,159	86,025
Software development (note 6(c))	151,255	50,000
Supplies	47,778	8,193
Travel	38,199	—
	$888,425	$ 193,567

1. OPERATIONS:

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 is a developer of software tools for Windows based applications that are deployed in embedded computing markets.

As at August 31, 1997, the Company had an accumulated deficit of $3,144,896 and has incurred operating losses for the last four fiscal years. In addition, its current business operations have generated no cash flow and funds will be required to further exploit the technologies. These financial statements are prepared on the basis of accounting principles applicable to a going concern which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing and to achieve profitable operations.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

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

(b) Capital assets:

Capital assets are recorded at cost net of applicable tax credits. Depreciation is calculated using the declining-balance method at the following annual rates:

Computers and equipment 30%
Furniture and fixtures..... 20%

Leasehold improvements are amortized on a straight-line basis over the term of the related lease.

(c) Technology rights and licenses:

Acquired technology rights and licenses are stated at cost and amortized under the straight-line method over three years. The Company continuously evaluates the value of these assets to determine if its unamortized portion has sustained a permanent impairment in value. The method used to determine whether there has been a permanent impairment in value is based upon projected cash flow from operations.

(d) Foreign exchange:

Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at transaction date rates. Any exchange gains or losses are included in the determination of income.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Research and development:

Expenditures on research are expensed as incurred. Development expenditures are expensed as incurred unless they meet certain restrictive criterion in which case they are capitalized. No amounts have been capitalized to August 31, 1997. Investment tax credits relating to current expenditures are recognized in income when there is reasonable assurance of realization. Tax credits related to capital expenditures reduce the cost of the related asset provided there is reasonable assurance of realization.

(f) Loss per share:

Loss per share has been calculated based on the weighted average number of common shares outstanding during the reporting period, including performance shares which are contingently returnable to treasury *(note 5(e))*. Fully diluted per share amounts have not been disclosed as the affect of outstanding options and warrants is anti-dilutive.

(g) Financial instruments:

Financial instruments to the company are represented by cash, including funds held in trust, accounts and share subscriptions receivable, accounts payable and accrued liabilities and the advance from shareholder. These instruments are carried at cost in the accompanying financial statements which, due to their immediate or short-term to liquidity, are estimated to be equivalent to their fair values.

(h) Use of estimates:

The preparation of financial statements in conformity with 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. Management has applied its judgment to the information available at the date of these financial statements in making such judgment which particularly apply to the recoverability of other assets. Actual results could differ from estimates made in preparing these financial statements.

3. CAPITAL ASSETS:

Year ended August 31, 1997

	COST	ACCUMULATED DEPRECIATION	1997 NET BOOK VALUE	1996 NET BOOK VALUE
Computers and equipment	$167,592	$ 40,843	$126,749	$ 18,872
Furniture and fixtures	12,231	4,142	8,089	7,776
Leasehold improvements	25,659	10,651	15,008	13,903
	$205,482	$ 55,636	$149,846	$ 40,551

4. ADVANCE FROM SHAREHOLDER:

	1997	1996
Advance from shareholder, who is chairman of the Company unsecured, non-interest bearing with no fixed terms of repayment	$80,000	$ —

5. SHARE CAPITAL:

(a) Authorized:

99,000,000 common shares without par value

1,000,000 class A preferred shares, non-voting, redeemable and retractable, convertible with a $0.60 stated par value, 8% cumulative dividend

(b) Issued:

	NUMBER OF SHARES	AMOUNT
Balance, August 31, 1995	5,415,532	$ 473,182
Issued:		
For cash on public offering	1,737,500	392,115
For cash on private placements	140,000	35,000
Debt settlement	74,040	41,463
For cash on exercise of warrants	134,000	53,600
Balance, August 31, 1996	7,501,072	995,360
Issued:		
For cash on private placements	5,356,667	1,723,455
Debt settlement	21,739	10,000
For cash on exercise of warrants	183,333	60,000
For cash on exercise of options	282,000	154,530
For services rendered	50,000	29,432
Towards purchase of technology rights and licenses	2,200,000	161,000
Balance, August 31, 1997	**15,594,811**	**$ 3,133,777**

Shares issued for non-cash consideration are valued at the market value of the Company's common shares at the date of the obligation for issuance occurs.

5. SHARE CAPITAL *(continued)*

Year ended August 31, 1997

(c) Warrants:

AUGUST 31 1996	GRANTED	EXERCISED	EXPIRED	AUGUST 31 1997	EXERCISE PRICE	EXPIRY DATE
312,500	—	(50,000)	(134,000)	**128,500**	0.46	April 16, 1998
—	1,845,000	—	—	**1,845,000**	0.37	February 25, 1998
—	1,666,667	(133,333)	—	**1,533,334**	0.35	July 22, 1998
312,500	3,511,667	(183,333)	(134,000)	**3,506,834**		

(d) Stock options:

Stock options are granted at exercise prices determined by reference to the market value of the shares at the date of grant.

AUGUST 31 1996	GRANTED	EXERCISED	EXPIRED	AUGUST 31 1997	EXERCISE PRICE	EXPIRY DATE
590,000	—	(15,000)	(125,000)	**450,000**	0.40	December 27, 2000
91,500	—	(91,500)	—	—	0.59	April 18, 2001
—	350,000	(100,000)	—	**250,000**	0.50	October 21, 2001
—	550,000	—	—	**550,000**	0.66	March 4, 2002
—	575,000	(75,500)	—	**499,500**	0.59	May 15, 2002
—	226,000	—	—	**226,000**	0.74	August 21, 1999
681,500	1,701,000	(282,000)	(125,000)	**1,975,500**		

(e) Performance shares:

Included in the issued and outstanding common shares are 5,670,000 common performance shares which were subject to an escrow agreement (now cancelled, see below). These shares were releasable from escrow on satisfaction of certain predetermined tests set out by regulatory authorities related to the generation of positive cash flow from operations. Shares not released from escrow within 10 years of the date of their issue were to be cancelled. Pursuant to the escrow agreement, holders of the performance shares were able to exercise all voting rights attached thereto except on a resolution to cancel any of the shares, and waived their rights to receive dividends or to participate in the assets and property of the Company on a winding-up or dissolution of the Company.

Subsequent to year end, these shares were cancelled *(note 8(b))*.

6. COMMITMENTS:

(a) Operating leases:

The Company is committed to payments under operating leases as follows.

1998	$ 46,196
1999	35,580
	$ 81,776

6. COMMITMENTS *(continued)*

(b) Employment contracts:

The Company has employment contracts with two of its key employees who are also significant shareholders. The term of the contracts are for three years and expire on December 31, 1997. The agreements provide for annual salaries totalling $103,200 which are to be paid out of revenues generated by the Company.

(c) Technology rights and licenses:

Technology rights and licenses comprises third party acquisition costs related to signal centre industrial automation software ("Signal"), web server technology ("Spidex") and a license to acquire and distribute VentureCom products. Under the Signal agreement the Company is required to pay a 10% royalty on product sales to a maximum of $2,000,000. Under the Spidex agreement the Company is required to pay $1,500 per month to May 1, 1997.

7. INCOME TAXES:

The Company has operating losses of approximately $3,000,000 available to reduce taxable income in future years, the benefits of which have not been recognized in these financial statements.

8. SUBSEQUENT EVENTS:

Subsequent to year end, the Company entered into the following significant transactions:

(a) The Company completed a private placement of 1,296,296 shares at $0.54 per share together with non-transferable share purchase warrants to purchase 648,148 common shares, the warrants of which are exercisable to August 1998 at $0.54 per share and thereafter to August, 1999 at $0.63 per share. At August 31, 1997, the Company had received cash of $597,316 in advance of the completion of this private placement.

(b) The Company cancelled 5,670,000 escrowed shares.

Board of Directors

DEREK SPRATT
President & CEO
Vancouver, Canada

WILLIAM YU
Chief Financial Officer
Vancouver, Canada

ROBERT GAYTON, *Ph.D.*
VP Finance, Western Copper Ltd.
West Vancouver, Canada

PETER TILSLEY
President
Computer Park Software Ltd.
United Kingdom

RONALD P. ERICKSON
Chairman & CEO
GlobalTel Resources Inc.
Seattle, Washington USA

Executive Officers

DEREK SPRATT
President & CEO

BRUCE FORDE, *Ph.D.*
Executive Vice President &
General Manager

TOM GILL
Chief Operating Officer

BRIAN ROSE
VP, Sales & Marketing

WILLIAM YU
Chief Financial Officer

Corporate Communications

MURRAY DUNCAN
Director
604. 801.6461

Auditors

KPMG

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AGM Date

February 5th, 1998

Stock Listing

Symbol "ICS" on the
Vancouver Stock Exchange

Bankers

Toronto Dominion Bank
Commercial Banking Centre
1933 Willingdon Avenue
Burnaby, BC V5C 5J3

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