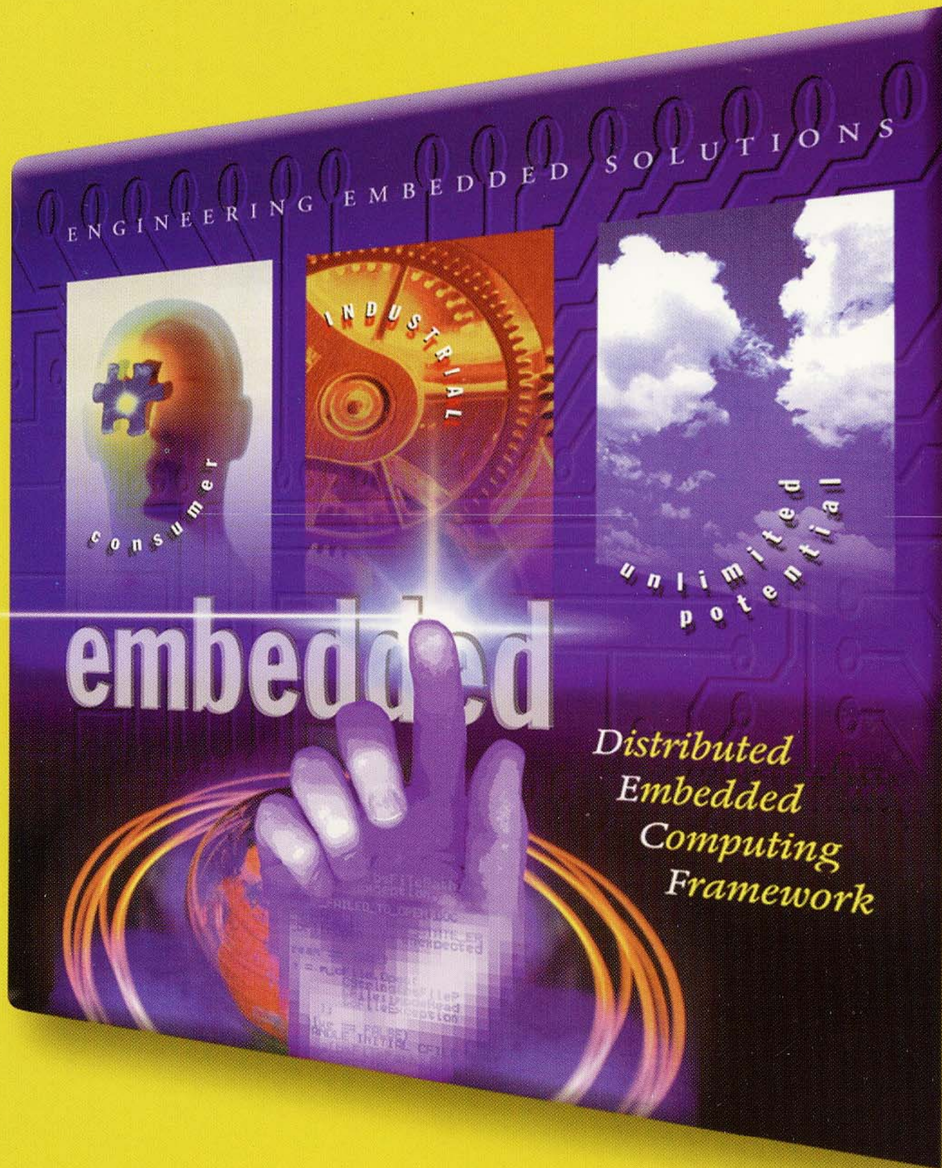


INTRINSYC
Software, Inc.

ANNUAL REPORT

1998

Intrinsyc Software's mission is to provide a distributed computing framework, supporting technologies and value-added services to the embedded systems market. Our **Distributed Embedded Computing Framework** (DECF) Partnership Program is the cornerstone of Intrinsyc's business strategy.

Our goal is to deliver technology that will enable our customers to improve their time-to-market advantage and enhance the competitiveness of their product offerings. Our customers are involved in one of the hottest growth areas in the technology market today. The opportunity for small, low cost and highly sophisticated consumer and commercial "internet appliances," which utilize the internet as their communication medium, is predicted by the experts to grow into the tens of billions of dollars over the next few years.

Intrinsyc is partnering with customers to harness ongoing advances in hardware and software technologies, and to deliver product solutions with unparalleled price and performance characteristics, today and into the future.

CROSSING THE THRESHOLD

DEREK SPRATT

President & CEO

Last year, I wrote that we were "standing at the threshold of a new and important era in the world of consumer and commercial electronics – the age of Embedded Computing... the age of the Embedded Internet." We have now crossed that threshold.

There is no doubt that 1998 was an amazing year for Intrinsyc! The company significantly increased its investment in R&D, which resulted in many exciting technical achievements and new product releases. We had a number of marketing successes in the form of initial licensing agreements with major original equipment manufacturers (OEMs), posted solid revenue growth over 1997, and explored – and ultimately discounted – a potential merger.

The much talked about "decline of the PC" and subsequent rise of the "internet appliance" industry trend that we have focused upon is beginning to gain tremendous momentum as we enter 1999. Our three years of preparation for this market opportunity is clearly leading to a steep growth curve for the company well into the next century.

IN 1998, THE COMPANY SIGNIFICANTLY INCREASED ITS INVESTMENT IN R&D, WHICH RESULTED IN MANY EXCITING TECHNICAL ACHIEVEMENTS AND NEW PRODUCT RELEASES. WE ALSO HAD A NUMBER OF MARKETING SUCCESSES IN THE FORM OF INITIAL LICENSING AGREEMENTS WITH MAJOR OEMS, AND POSTED SOLID REVENUE GROWTH OVER 1997.

In November of 1998, we released a compelling new suite of software that attracted a lot of attention in the embedded systems market at a critical point in this market's development. We must now consolidate the advantage created by our early delivery of product to this market by commencing the revenue-driven shift to a much more marketing and sales focused business model. Accordingly, we have decided to increase our U.S. profile by moving our Kirkland office to San Francisco. This initiative is being headed by our new board *member and Executive Vice President of Field Operations, Mr. Don Sutcliffe, who brings with him an extensive, proven track record in building effective sales channels for both Canadian and US high tech companies.*

We are convinced that 1999 will see the embedded software market continue its dramatic evolution, and that a new group of companies will emerge and assume leadership positions. Intrinsyc's future lies in forging alliances with firms that are capable of leading this new industry into the next millennium. My personal mission is to attract those strategic partners who share Intrinsyc's vision and have product lines and service offerings that mesh tightly with our proprietary technologies and core competencies. I believe the market is now ready for Intrinsyc to make these moves, and that by doing so we can sustain our momentum and maximize shareholder value.

In closing, I would like to dedicate this annual report to the memory of David Bensted, past President of DBA Communications, who recently passed away after a tough battle with cancer. David offered me my first engineering position at DBA in 1983, for which I will always be grateful. Geoff Danzig, David's partner, a co-founder of both DBA and Intrinsyc Software, later encouraged me to join Intrinsyc, first as a strategic investor, then as a director, and eventually as its CEO. David's passing reminds me that life's complex web both shapes and connects us all.

Again, thank you for your support.

Sincerely,

Intrinsyc Software, Inc.

Derek W. Spratt

President & CEO

MY PERSONAL MISSION IS TO ATTRACT ADDITIONAL STRATEGIC PARTNERS WHO SHARE INTRINSYC'S VISION AND HAVE PRODUCT LINES AND SERVICES OFFERINGS THAT MESH TIGHTLY WITH OUR TECHNOLOGIES AND CORE COMPETENCIES.

INTRINSYC SOFTWARE INC. GENERATES REVENUES THROUGH DECF AND PRODUCT LICENSING, AS WELL AS DEVELOPMENT AND SUPPORT SERVICES.

THE DECF PARTNERSHIP PROGRAM

The Distributed Embedded Computing Framework (DECF) Partnership Program forms the cornerstone of Intrinsyc's business strategy. DECF is a collection of distributed connectivity technology, services and application components optimized for embedded systems. The Intrinsyc DECF Partnership Program provides OEMs and Systems Integrators with the DECF technologies, tools and technical assistance they require to successfully and quickly deploy their next generation embedded systems.

Specifically, the DECF Partnership Program provides:

Priority Access to Intrinsyc DECF Technologies

Time to market pressures require that important new technologies be designed into product lines ahead of |the competition. DECF program partners gain important early access to Intrinsyc's upcoming DECF technologies and are invited to participate in DECF planning sessions to provide input into Intrinsyc's technology roadmap;

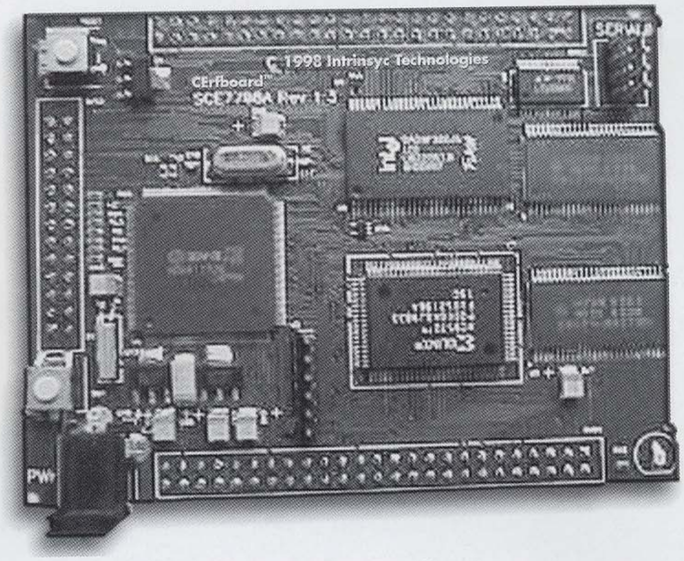
Priority Technical Assistance

DECF program partners can quickly become productive and knowledgeable in evaluating and demonstrating effective implementations of DECF technologies in their development programs as well as in released product lines;

Access to Intrinsyc DECF Development Tools

DECF program partners get tools to simplify and accelerate the design-in of Intrinsyc and other third party licensable DECF technologies while reducing the end-product's overall development and production costs;

Pre-Paid Royalties on Intrinsyc DECF Technologies



CErfBoard™ IS AN EXCITING NEW FAMILY OF WINDOWS CE EMBEDDED INTERNET REFERENCE PLATFORMS, TOOLS, AND APPLICATION SOFTWARE – THE RESULT OF A JOINT INITIATIVE BETWEEN HITACHI SEMICONDUCTOR AMERICA INC. AND INTRINSYC SOFTWARE, INC.

Priority Access to Intrinsyc Consulting Services

DECF program partners can augment their internal design resources with world-class Intrinsyc consultants to further accelerate the design-in of Intrinsyc's licensable DECF technologies.

The DECF Partnership program currently includes the following Intrinsyc DECF technologies:

deviceCOM™

A technology optimized for distributed embedded systems that operate on Windows CE, Windows NT and a growing range of embedded real-time operating systems (RTOS). The deviceCOM framework is compatible at the object level with DCOM, a Microsoft standard used by over three million developers worldwide for desktop and enterprise applications.

deviceCOM™ Event Services

A service component that provides a powerful yet simple framework for synchronizing activities and sharing data between software components. With this framework, DECF program partners can simplify application development, reduce application/ service dependencies, and conserve system resources.

deviceCOM™ Database Services

A service component that provides a data storage solution for embedded applications where it is often impractical or infeasible to simply use a general-purpose database in the resource-constrained environment of an embedded system platform.

1998 HIGHLIGHTS

deviceCOM™

DeviceCOM™ announced in beta in the Spring, and released on Schedule at the Embedded West Show in San Jose in November, 1998.

IX for CE and NT

IX for CE and IX for NT announced and delivered to the market in November of 1998.

CErfBoard™

CErfBoard™ was announced and released in November and December of 1998.

deviceCOM™ OPC Kit

An application kit that implements of OPC (OLE for Process Control) industrial automation standard on Windows CE and Windows NT platforms.

Rainbow™

An embedded web server framework for Windows CE that provides a flexible extension mechanism for easy web-enabled application development. The Rainbow framework is provided with a ready-made Remote Management System (RMS) web-based application and a powerful OEM Development Kit to support DECF partner custom development.

WinFT™

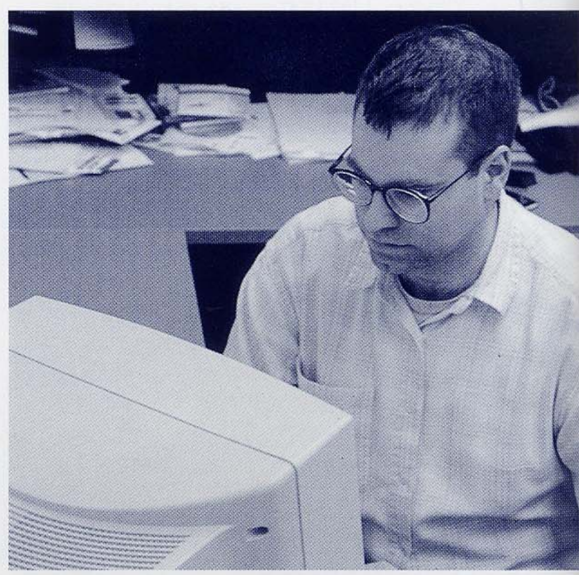
A Windows CE and Windows NT software watchdog, data logging and persistence service for high reliability and unattended embedded system applications.

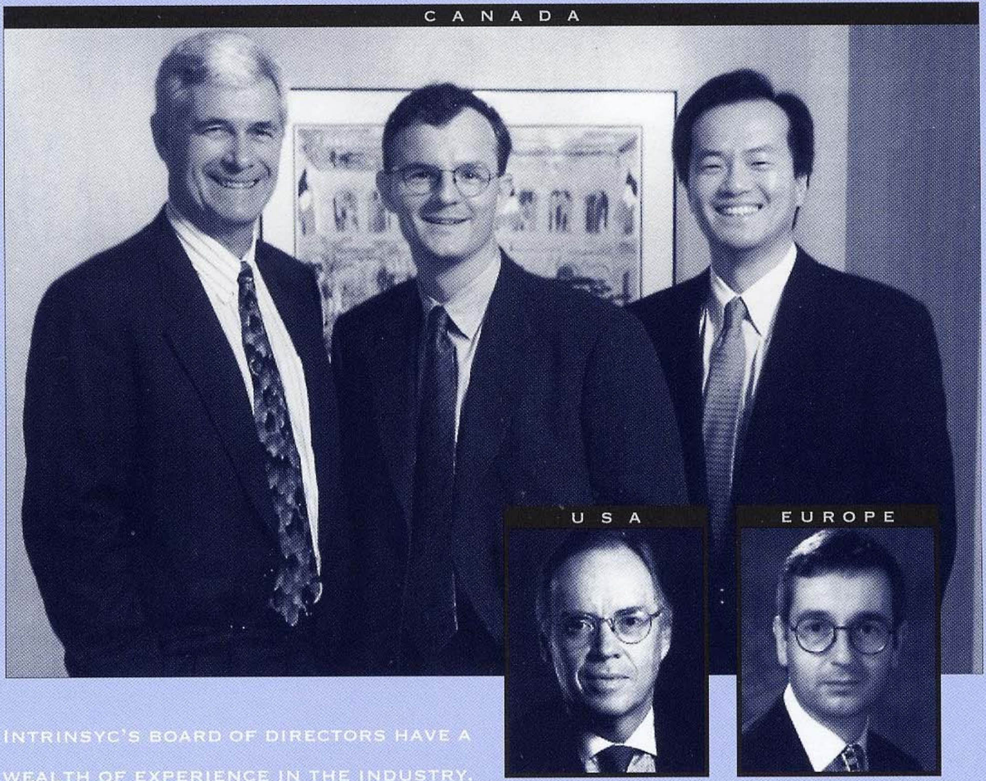
CErfBoard™

A web-enabled, Internet-ready hardware reference platform for countless Windows CE headless applications in industrial automation, point of sale or gaming industries. CErfBoard™ was developed in conjunction with Hitachi Semiconductors America and uses a powerful 32-bit RISC microprocessor. CErfBoard is provided as a reference kit pre-loaded with other DECF technologies such as the Rainbow web server and RMS application.

Integration Expert™

A Windows CE or Window NT visual operating system analysis and customization tool for fast and optimized embedded systems development. Integration Expert™ support the easy integration of DECF program partner or third party hardware platforms, applications, and software components





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

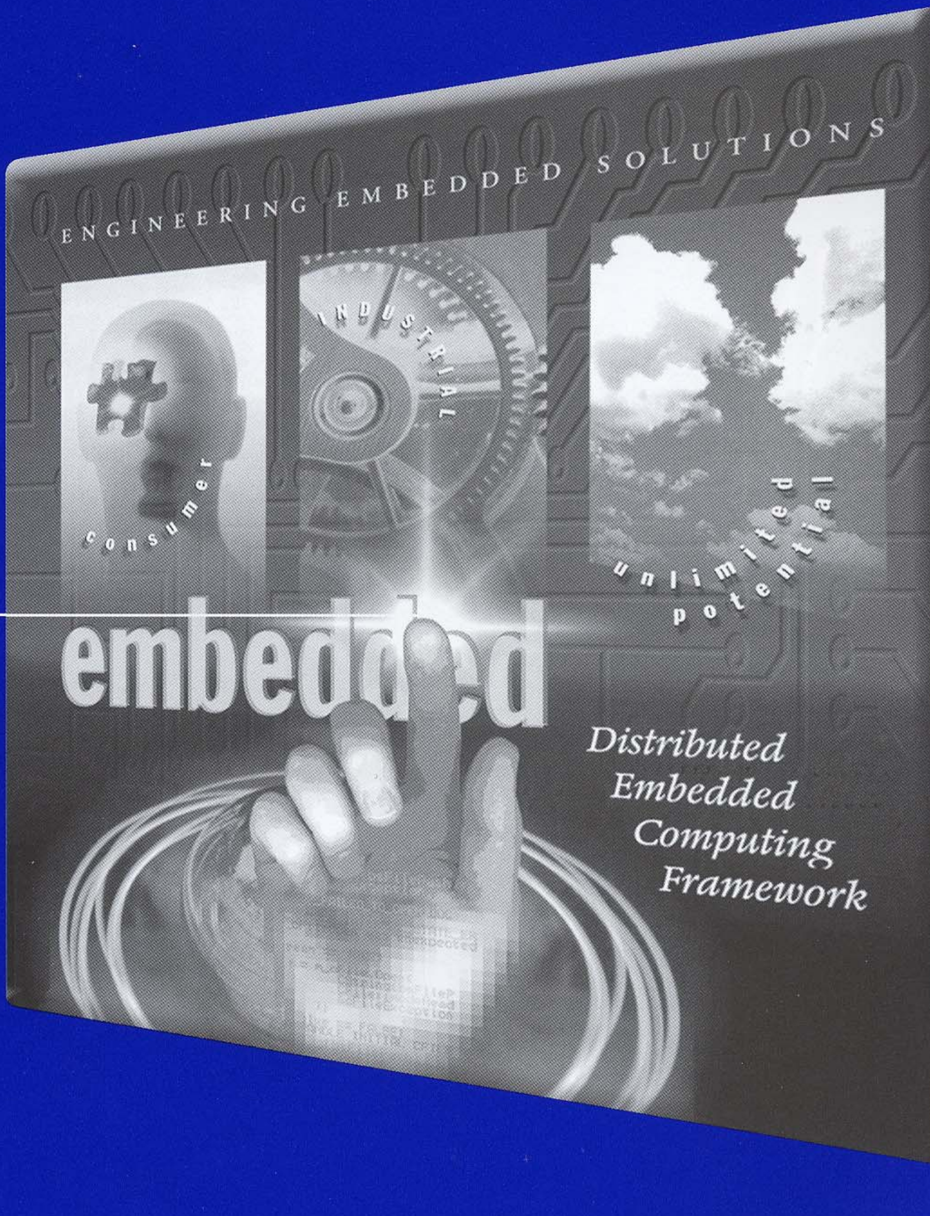
Mr. Yu worked in the investment banking and venture capital fields with major Canadian firms prior to joining Intrinsyc.

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)

Intrinsyc'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.



INTRINSYC
Software, Inc.

Financial Statements

Year ended
1998

To the Shareholders of

INTRINSYC SOFTWARE INC.

We have audited the balance sheet of Intrinsyc Software Inc. as at August 31, 1998 and 1997 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, 1998 and 1997 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.

KPMG LLP

CHARTERED ACCOUNTANTS
Vancouver, Canada

December 17, 1998

BALANCE SHEET

August 31, 1998 and 1997

ASSETS	1998	1997
Current assets		
Cash	$ 834,619	$ 349,067
Accounts receivable	315,008	96,988
Share subscriptions receivable	—	98,530
Due from Annabooks Software, LLC *(note 3)*	172,965	—
Prepaid expenses	31,492	25,890
	1,354,164	570,475
Capital assets *(note 4)*	217,712	149,846
Technology rights and licenses *(note 7(b))*	219,820	407,487
	$ 1,791,696	$ 1,127,808

LIABILITIES AND SHAREHOLDERS' (DEFICIENCY)	1998	1997
Current liabilities		
Accounts payable and accrued liabilities	$ 769,845	$ 461,611
Advance from shareholder *(note 5)*	—	80,000
	769,845	541,611
Funds received in advance of the issuance of shares	—	597,316
Shareholders' equity (deficiency)		
Share capital *(note 6)*	8,041,123	3,133,777
Deficit	(7,019,272)	(3,144,896)
	$ 1,021,851	(11,119)
Operations *(note 1)*		
Commitments and contingencies *(note 7)*		
Subsequent events *(notes 3 and 10)*		
	$ 1,791,696	$ 1,127,808

See accompanying notes to financial statements.

On behalf of the Board:

Derek Spratt, *President & CEO* DIRECTOR

William Yu, *Chief Financial Officer* DIRECTOR

STATEMENT OF OPERATIONS AND DEFICIT

Years ended August 31, 1998, and 1997

	1998	1997
Revenues	$ 562,904	$ 69,036
Expenses		
Administration (schedule)	1,244,916	833,787
Marketing and sales (schedule)	1,099,282	381,695
Research and development (schedule)	1,577,501	923,793
Costs relating to the proposed merger with Annabooks Sofware, LLC *(note 3)*	515,581	—
	4,437,280	2,103,275
Loss for the year	3,874,376	2,070,239
Deficit, beginning of year	3,144,896	1,074,657
Deficit, end of year	$ 7,019,272	$3,144,896
Loss per share	$ .24	$ 0.16

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended August 31, 1998, and 1997

	1998	1997
Cash provided by (used in):		
Operations		
Loss for the year	$ (3,874,376)	$ (2,070,239)
Items not involving cash		
Depreciation and amortization	257,320	179,683
	(3,617,056)	(1,890,556)
Change in non-cash operating working capital		
Accounts receivable	(218,100)	(59,351)
Prepaid expenses	(5,602)	(23,254)
Accounts payable and accrued liabilities	308,234	179,007
	(3,532,524)	(1,794,154)
Financing		
Net proceeds from issuance of share capital	4,408,560	2,138,417
Share subscriptions receivable	—	(98,530)
Funds received in advance of the issuance of share capital	—	357,326
Advance from shareholder	(80,000)	80,000
Advances to Annabooks Software, LLC	(172,965)	—
	4,155,595	2,477,213
Investments:		
Purchase of capital assets	(137,519)	(140,968)
Purchase of technology rights and licenses	—	(555,497)
	(137,519)	(696,465)
Increase (decrease) in cash	485,552	(13,406)
Cash, beginning of year	349,067	362,473
Cash, end of year	$ 834,619	$ 349,067

See accompanying notes to financial statements.

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, 1998, the Company had an accumulated deficit of $7,019,272 and has incurred operating losses for the last five 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 due to future benefit being unlikely. The method used to determine whether there has been a permanent impairment in value is based upon projected cash flow from operations. Where a permanent impairment has occurred, the write-down is included in software development expenses in research and development expenses in the statement of 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) Revenue recognition:

Revenue from product sales is recorded when title passes to the customer and there are no significant risks with respect to the products sold. Revenue from consulting and other services is recorded as the services are performed if there is reasonable certainty as to collectibility.

(f) 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, 1998.

(g) Tax credits:

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 assrance of realization.

(h) Loss per share:

Loss per share has been calculated based on the weighted average number of common shares outstanding during the reporting period. Fully diluted per share amounts have not been disclosed as the effect of outstanding options and warrants is anti-dilutive.

(i) Financial instruments:

Financial instruments to the Company are represented by cash,receivables, 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.

(j) 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 technology rights and licenses and the implication of the Year 2000 issue to the Company's operations. Actual results could differ from estimates made in preparing these financial statements.

(k) Comparative financial statements:

Certain of the comparative figures have been reclassified to conform to the 1998 presentation.

3. Due from Annabooks Software, LLC:

Advances totalling US $238,000 were made to Anabooks Software, LLC ("Annabooks"), a California limited liability company. The advances are due on demand, bear interest at 9.5 percent and are secured by a Security Agreement covering all accounts of Annabooks. Subsequent to year end, advances of US $110,000 were repaid by Annabooks.

These advances were made in anticipation of a proposed merger between Annabooks and the Company that was scheduled to complete on or before October 30, 1998. As this proposed merger has been postponed indefinitely, all of the Company's costs relating to the merger have been expensed. In addition, the remaining unpaid balance of US $128,000 has been settled against amounts related to this transaction paid by Annabooks on behalf of the Company.

4. Capital assets:

1998

	Cost	Accumulated Depreciation	Net Book Value
Computers and equipment	$ 299,725	$ 94,560	$ 205,165
Furniture and fixtures	17,617	5,070	12,547
	$ 317,342	$ 99,630	$ 217,712

1997

	Cost	Accumulated Depreciation	Net Book Value
Computers and equipment	$ 167,592	$ 40,843	$ 126,749
Furniture and fixtures	12,231	4,142	8,089
Leasehold improvements	25,659	10,651	15,008
	$ 205,482	$ 55,636	$ 149,846

5. Advance from shareholder:

	1998	1997
Advance from shareholder, who is chairman of the Company unsecured, non-interest bearing with no fixed terms of repayment	$ —	$ 80,000

6. Share capital:

(a) Authorized:

93,330,000 common shares without par value

(b) Issued:

	Number of shares	Amount
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	67,857	29,432
Towards purchase of technology rights and licenses	2,200,000	161,000
Balance, August 31, 1997	7,501,072	3,133,777
Issued		
For cash on Special warrants *(note 6(c))*	1,967,536	2,429,859
Cash on private placements	1,476,296	918,959
Debt settlement	21,467	31,341
For cash on exercise of warrants	3,605,564	1,347,137
For cash on exercise of options	346,866	180,050
Cancellation of escrow shares *(note 6(f))*	(5,670,000)	—
Balance, August 31, 1998	**17,360,397**	**$ 8,041,123**

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.

(c) Special warrants:

During fiscal 1998, the Company issued 1,757,735 special warrants (the "Special Warrants") for $1.50 per Special Warrant. Pursuant to an agency agreement, the Company paid the Agent a commission of 7 percent of the gross proceeds from the sale of the Special Warrants. The Agent elected to receive $46,413 of the commission to which it is entitled by way of 30,942 Special Warrants. Upon exercise of each Special Warrant, the holder was issued 1.1 units, each unit consisting of one common share and one half of one share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to acquire one common share at $1.75 per share to the earlier of January 20, 2000 and the 10th business day following the date on which the Company gives notice to the Trustee and the warrant holder that the closing market price of the Company's common shares has been greater than $5.00 per share for any consecutive 21 trading days preceding such notice.

6. SHARE CAPITAL *(continued)*

(d) Warrants:

AUGUST 31 1997	GRANTED	EXERCISED	EXPIRED	AUGUST 31 1998	EXERCISE PRICE	EXPIRY DATE
128,500	—	128,500	—	—	0.46	Apr 16, 1999
1,845,000	—	1,844,990	10	—	0.37	Feb 25, 1999
1,533,334	—	1,533,334	—	—	0.35	July 22, 1999
—	638,149	95,000	—	**553,149**	0.63	Aug 6, 1999
—	90,000	—	—	**90,000**	0.25	Nov 19, 1999
—	983,762	3,740	—	**980,022**	1.75	Jan 20, 2000
3,506,834	1,721,911	3,605,564	10	**1,623,171**		

(e) 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 1997	GRANTED	EXERCISED	EXPIRED/ CANCELLED	AUGUST 31 1998	EXERCISE PRICE	EXPIRY DATE
226,000	—	47,333	98,667	**80,000**	0.74	Aug 21, 2002
450,000	—	150,000	—	**300,000**	0.40	Dec 27, 2000
250,000	—	50,000	—	**200,000**	0.50	Oct 21, 2001
550,000	—	—	—	**550,000**	0.66	Mar 4, 2002
499,500	—	78,700	16,800	**404,000**	0.59	May 15, 2002
—	460,000	—	—	**460,000**	0.50	Oct 24, 2001
—	297,000	10,000	20,000	**267,000**	0.77	Sept 22, 2002
—	42,000	2,500	32,000	**7,500**	1.83	Dec 4, 2002
—	130,000	—	—	**130,000**	1.57	Jan 26, 2003
—	35,000	—	—	**35,000**	1.47	Feb 26, 2003
—	40,000	—	—	**40,000**	1.25	Feb 27, 2003
—	3,000	—	3,000	**3,000**	1.60	Mar 3, 2003
—	50,000	—	30,000	**20,000**	2.45	Mar 27, 2003
—	784,315	—	—	**784,315**	2.45	Apr 2, 2003
—	70,000	—	—	**70,000**	2.10	May 20, 2003
—	32,000	—	—	**32,000**	2.06	May 25, 2003
—	50,000	8,333	—	**41,667**	0.74	Sept 15, 2003
—	100,000	—	—	**100,000**	2.16	July 31, 2003
1,975,500	2,093,315	346,866	197,467	**3,524,482**		

(f) Cancellation of escrow shares:

During 1998, the Company cancelled 5,670,000 common shares which were subject to an escrow agreement and previously included in the issued and outstanding common shares.

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

7. Commitments and contingencies:

(a) Operating leases:

The Company entered into an operating lease with respect to its offices which expires on June 29, 1999. Future minimum lease payments totalling $36,000 are due in 1999.

(b) Technology rights and licenses:

Technology rights and licenses comprises third party acquisition costs related to signal centre industrial automation software ("Signal"), web server technology ("Spider") and WinFT Fault Tolerance operating system component set ("WinFT"). Under the Signal agreement the Company is required to pay a 10 percent royalty on product sales to a maximum of $2,000,000. Under the WinFT agreement, the Company is required to pay a 10 percent royalty on all sales of WinFT to a maximum of $100,000.

(c) Year 2000 issue:

The Year 2000 Issue relates to computer systems which use two digit date codes and, therefore, may read the year 2000 as the year 1900 or some other year. The Company may experience the effects of the Year 2000 Issue before, on, or after January 1, 2000, and that the effects on operations and financial reporting, if not addressed, may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including potential issues related to software sold by the Company as well as those issues relating to the efforts of customers, suppliers, or other third parties, will be fully resolved.

8. Income taxes:

The Company has operating losses of approximately $7,000,000 available to reduce taxable income in future years, the benefits of which have not been recognized in these financial statements.

9. Related party transactions:

In addition to related party transactions disclosed elsewhere in these financial statements, included within administration expenses for the year are $76,746 (1997 – $nil) paid to to companies controlled by officers and a director of the Company for the provision of management and consulting services to the Company. In addition, the Company paid $25,700 (1997 – $nil) to a director of theCompany for consulting services rendered.

10. Subsequent events:

(a) On October 6, 1998, the Company announced the indefinite postponement of the proposed merger with annabooks *(note 3)*; and

(b) On September 21, 1998, the Company granted employee stock options to purchase 50,000 common shares at an exercise price of $1.32. The options will expire on September 21, 2003.

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

Years ended August 31, 1998, and 1997

	1998	1997
Administration expenses		
Automobile	$ 11,973	$ 12,835
Bank charges and interest	4,020	3,571
Depreciation and amortization	69,653	31,669
Investor relations	124,596	102,907
Legal and professional	114,281	158,355
Listing and exchange fees	44,293	20,843
Office	145,930	50,234
Postage	13,575	7,731
Premises	89,045	65,673
Salaries and benefits	301,317	277,776
Shareholder relations	232,654	36,740
Telephone	43,401	34,347
Travel	50,178	29,106
	$ 1,244,916	$ 833,787
Marketing and sales expenses		
Advertising	$ 303,573	$ 16,730
Automobile	2,959	4,290
Entertainment and promotion	2,406	4,043
Office	57,463	45,660
Premises	38,795	22,785
Professional fees	35,861	33,413
Royalty	13,370	—
Salaries and commissions	549,418	206,486
Telephone	16,128	6,931
Travel	79,309	41,357
	$ 1,099,282	$ 381,695
Research and development expenses		
Amortization	$ 187,667	$ 148,014
Materials	6,456	$ 35,368
Office	35,834	5,372
Professional fees	408,900	237,648
Salaries and benefits	862,875	260,159
Software development	—	151,255
Supplies	36,787	47,778
Travel	38,982	38,199
	$ 1,577,501	$ 923,793

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

DON SUTCLIFFE
VP, Field Operations

WILLIAM YU
Chief Financial Officer

Investor Relations

MURRAY DUNCAN
Director, Corporate Communications
604. 801.6461

Auditors

KPMG

Corporate Headquarters

Suite 1050, 1075 West Georgia Street
Vancouver, BC Canada V6E 3C9
Telephone 604. 801.6461
Fax 604. 801.6417
e-mail info@intrinsyc.com
Website http://www.intrinsyc.com

US Office Sales & Marketing

Suite 205, 550 Kirkland Way,
Kirkland, Washington, USA 98033

Registered Office

Suite 1810, 1111 West Georgia Street
Vancouver, BC V6E 4M3

Transfer Agent

Pacific Corporate Trust Co.
Suite 830, 625 Howe Street
Vancouver, BC V6C 3B8

AGM Date

February 25th, 1999

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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