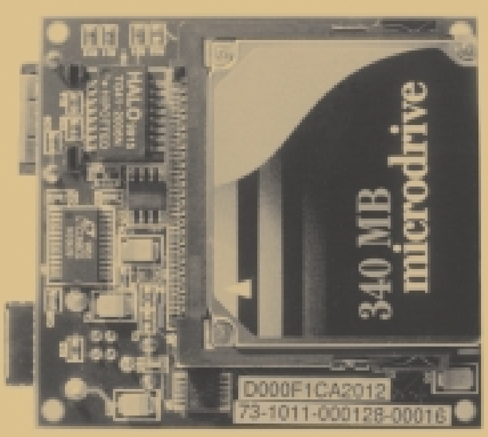


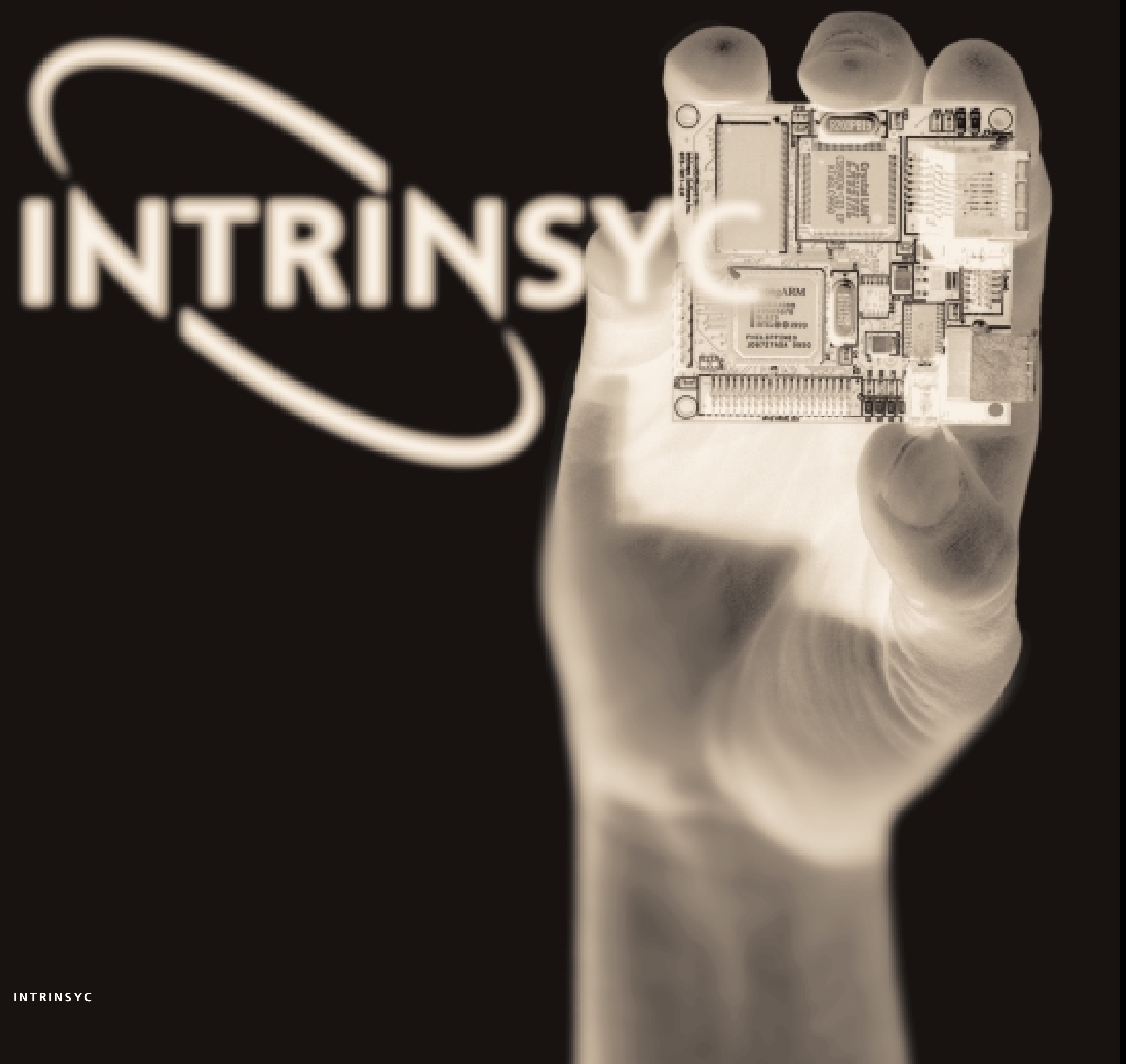
INTRINSYC 2000 ANNUAL REPORT

It's a master of contradiction.

Extremely compact, yet extremely powerful.

Customizable, or ready to go, Intrinsyc's CerfBoard is in a league of its own. It's at the heart of Internet-enabled security cameras, it helps automate entire buildings over the web and even provides the smarts to the PDA that'll improve your golf game.

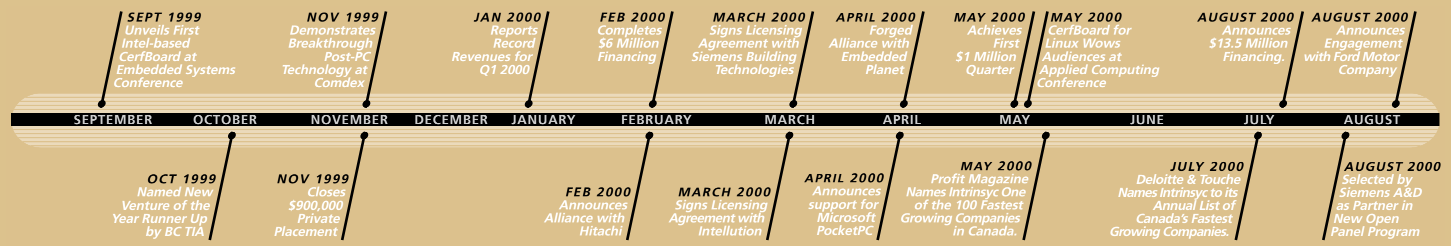
And it's just one of Intrinsyc's innovative technology solutions that are enabling the future of networked computing. ■



ONE OF CANADA'S FASTEST GROWING COMPANIES, INTRINSYC DEVELOPS TECHNOLOGY AND SOLUTIONS NEEDED TO CREATE NEW INTERNET DEVICES AND INFORMATION APPLIANCES, AND LINK AND REMOTELY MANAGE LARGE NETWORKS OF THESE DEVICES.

DESKTOP COMPUTERS ARE A FIXTURE IN PEOPLE'S HOMES AND BUSINESSES. THE NEXT WAVE OF TECHNOLOGY IS RUSHING TO PUT TINY, SURPRISINGLY POWERFUL COMPUTERS INTO JUST ABOUT EVERYTHING ELSE AROUND YOU — AIR CONDITIONERS, CARS, SECURITY SYSTEMS, COMMERCIAL VENDING MACHINES, AUTOMATED CAR WASHES AND FACTORY FLOOR CONTROLLERS.

INTRINSYC IS AT THE FOREFRONT OF THIS NEXT WAVE. IT ALREADY HAS THE TECHNOLOGY TO MAKE INTELLIGENT DEVICES COMMUNICATE SEAMLESSLY — NOT ONLY WITH EACH OTHER — BUT ALSO WITH A COMPANY'S ENTERPRISE-WIDE SYSTEMS. THAT IS WHY FORTUNE 500 COMPANIES TURN TO INTRINSYC TO MAKE THEIR CUTTING-EDGE IDEAS A REALITY.



Intrinsyc 1999 / 2000 Year's Highlights

THE POSSIBILITIES FOR EMBEDDED, NETWORKED TECHNOLOGY ARE ONLY LIMITED BY OUR IMAGINATION. TO DATE, INTRINSYC'S ENGINEERS HAVE ENABLED CUSTOMERS TO RAPIDLY BUILD HIGHLY RELIABLE, WEB AND ENTERPRISE-READY INTERNET DEVICES AND INFORMATION APPLIANCES FOR MARKET SEGMENTS SUCH AS MOBILE COMPUTING, INDUSTRIAL AND BUILDING AUTOMATION, TELECOMMUNICATIONS, MEDICAL AND POINT-OF-SALE — ALL LARGE AND RAPIDLY GROWING GLOBAL MARKETS.

INTRINSYC IS BASED IN VANCOUVER, BRITISH COLUMBIA. INVESTORS MAY CONTACT INVEST@INTRINSYC.COM OR VISIT OUR WEB SITE AT WWW.INTRINSYC.COM. ■

Fellow Shareholders,

The past year was one of evolution — not only for Intrinsyc — but for the computing world as a whole. The initial blush of "dot com" fever has been replaced by a growing interest in the Internet infrastructure build-out, with a goal of creating a pervasive computing framework — *'any way, any time'* Internet access to and between people and devices. This is a model where Intrinsyc's technology solutions help to remove the traditional barriers between desktop PCs and a new emerging class of smart, Internet-enabled computing devices.

The fiscal year ending August 31, 2000, was a strong one for Intrinsyc, as the company achieved a number of significant milestones:

Grew Revenues and Diversified Customer Base. Building upon the momentum of 1999, the Company achieved record revenues for the third consecutive year. Intrinsyc's revenue grew 41% to $3.16 million in fiscal 2000 and we nearly doubled our customer base. With the expansion of the Internet and the growing demand for a ubiquitous computing environment, some of the world's largest and most successful companies turned to Intrinsyc for complete, reliable and integrated solutions. Significant engagements with the Ford Motor Company, Siemens, TouchStar and others helped to establish Intrinsyc as a world-class provider of embedded solutions.

Executed on Business Opportunities. Having the tools to meet the needs of our customers is crucial, and Intrinsyc is better prepared than ever to support

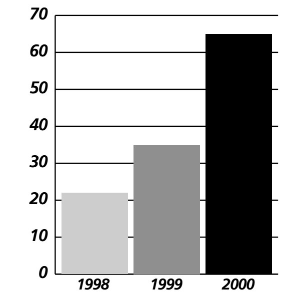
IN TOUCH WITH OUR SHAREHOLDERS

our customers. We enhanced our core offerings with new products, technologies and services, including the establishment of key strategic alliances to serve the growing embedded Linux market and to give our customers versatility in developing their products. While we focus on the capabilities, partners and resources needed to enter new markets, we are also investing in our internal infrastructure, with the growth of our sales and marketing team and the implementation of a customer relationship management (CRM) system.

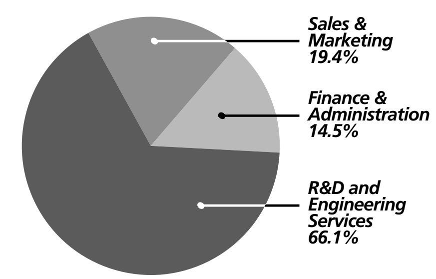
Grew Our Team, Added Operational Expertise. Intrinsyc continued to attract the best and brightest minds to our team, people who have delighted our new Fortune 500 customers with their creative talents and keen focus on solving specific product development challenges. Intrinsyc now boasts a solid team of over 70 people.

Demonstrating a commitment to managed, strategic growth, Intrinsyc appointed Neil McDonnell as President and Chief Operating Officer subsequent to the fiscal year-end. With more than 15 years experience in the management of high-technology companies, Neil is well known and respected in the field.

Strengthened Financial Position. Intrinsyc completed a $6 million Special Warrant financing in the second fiscal quarter of 2000, and the Company announced and completed another $13.5 million Special Warrant financing, subsequent to year-end. The net proceeds of these offerings, which significantly enhanced the Company's financial position, are being used to fuel



Intrinsyc Employee Growth



Intrinsyc Employees By Type

Intrinsyc's plans for expansion and for general working capital. Both Special Warrant offerings were significantly oversubscribed and attracted some of Canada's most respected institutional investors.

Achieved Widespread Recognition. During fiscal 2000, Intrinsyc's stellar growth was recognized by several respected sources. *Profit Magazine* named Intrinsyc one of the Top 100 fastest growing companies in Canada. Deloitte & Touche ranked Intrinsyc number 15 on its annual list of Canada's 50 fastest-growing technology companies. Our CerfBoard for Linux, a reference platform created specifically for the burgeoning embedded Linux market, was the talk of the show at this year's Applied Computing Conference in San Jose, CA.

Although the past year was one of our most rewarding, it was also, in many ways, one of our most challenging, as a secure cash position and an evolving market caused our priorities to shift dramatically over the course of the year.

Our experienced investor relations team was successful in raising Intrinsyc's profile among analysts and attracting many new institutional investors. We will continue to add shareholder value in the coming year, and for many years to follow.

For our fiscal 2001 period, I have set new goals for the company. We will maintain a path of compounded growth in our revenues, the number of new customers, and the quality of our strategic partners. Collectively, our execution strategy focuses on building sales channels to leverage our technologies beyond our direct sales reach into new markets.

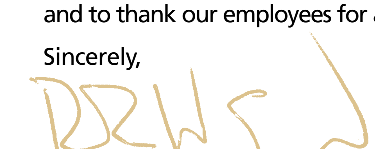
))) ... THE OPPORTUNITIES FOR GROWTH — WITHIN OUR EXISTING CUSTOMER BASE — ARE VIRTUALLY LIMITLESS.

We will continue to hire exceptional talent and to consolidate and dominate the emerging market for networking solutions of pervasive computing devices.

Our ultimate goal for 2001 is to position ourselves as a world leader in device networking and embedded solutions. The opportunities for growth — within our existing customer base — are virtually limitless. There are no boundaries to the application of our technologies and talents — and we intend to continue to grow our market share, expand our business and build the infrastructure required to deliver on our customers' growing needs.

On behalf of the Board of Directors, I would like to acknowledge our customers, allies, suppliers and shareholders for their ongoing support and confidence, and to thank our employees for another successful year.

Sincerely,



Derek W. Spratt
Chairman & Chief Executive Officer

INTRINSYC 101 A BRIEF INTRODUCTION

Imagine a World...

Imagine a world where your household appliances communicate with one another or where a company's production in Seattle can be managed from London, England. Imagine a world where, after an automobile accident, intelligent vehicles instantly notify emergency authorities of vital information such as vehicle location, condition of occupants and the extent of damage. Or a world where you can use the web browser on your television to locate a lost pet. All of these applications are possible with embedded, networked technology. Imagine how the future of computing will affect your life in the years to come. At Intrinsyc, we do it everyday.

To understand what Intrinsyc does, it's helpful to understand the concept of 'connectivity'. Connectivity has a fairly basic assumption at its core:

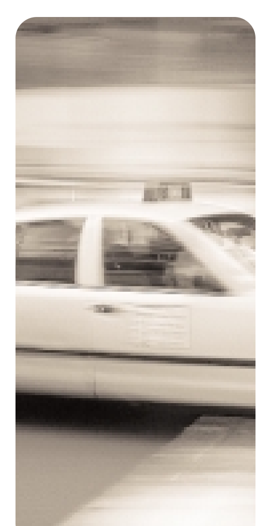
> "We as a society have thousands of innovative products and devices at our disposal. Imagine if we could connect these devices and enable them to speak seamlessly, not only with one another, but also with powerful business enterprise computer networks. We would increase the usefulness and the value of those devices exponentially."
> — Derek Spratt, Chairman and CEO, Intrinsyc

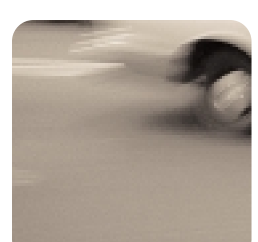
That's what we do at Intrinsyc. We create solutions that make ubiquitous computing a reality.

Intrinsyc's solutions are helping to facilitate new possibilities for Internet access to and between people and devices. These solutions can be applied to just about any device imaginable and allow these devices to be connected to intelligent networks and thereby to be empowered. The result — intelligent appliances using embedded processors to give people convenient, remote access to relevant information — anytime, anywhere, on any device. We're putting devices of all shapes and sizes on a level playing field with business enterprise computing systems.

Our Products

- CerfBoard, a low-cost embedded Windows and Linux reference design that our customers use to fast-track the creation of new Internet devices.
- deviceCOM for Windows CE and NT, a software solution for reliably linking Internet devices to the web and enterprise over wired or wireless communications networks, and deviceCOM for Linux, a new networking technology that reliably links Linux-based devices to Windows enterprise systems.
- deviceWEB, a powerful embedded Windows web server, designed to easily turn any consumer, commercial or industrial electronics device into a standard Internet web server.
- deviceRMS, a software solution for remotely configuring, managing, and monitoring devices using a standard web browser.
- deviceOPC, a specialized software solution for industrial automation, designed to reliably link industry-standard compliant products, and deviceOPC for Linux, a software toolkit that allows you to quickly and easily create OPC servers for Linux-based systems.





The Implications

Solve problems. Save time. Make money.

Manufacturers demand affordable, reliable, flexible solutions to build complex devices and link them to one another for remote management, and they are turning to Intrinsyc for solutions that can make anything "smart". Embedded systems will improve communications – in your house and on the factory floor. They will save lives. They'll even improve your golf game. For our customers, Intrinsyc solutions eliminate downtime, save money, and maintain a competitive advantage.

Our Market

It is estimated that 98 per cent of all computer chips made today are in something other than desktop computers. The vast majority are placed in Internet devices and information appliances. The embedded market is estimated to become a $7 billion dollar industry by 2004. According to industry analyst IDC, the worldwide market for information appliances will exceed 89 million units, or $17.8 billion, in 2004, up from a market of 11 million units and $2.4 billion in 1999. Intrinsyc has established itself as one of the pioneers in this industry, with the technology, the partners and the vision to flourish in this burgeoning market.

Our Customers

Intrinsyc's customers are Original Equipment Manufacturers (OEMs) and Value-Added Resellers (VARs). The companies who make the products and devices we use every day – automobiles, home entertainment systems, factory robots, traffic lights, banking machines, and handheld computers. These companies are faced with the challenge of building complex products within very short development cycles. They need to ensure their devices communicate effectively with each other and with a larger, business enterprise computing system. And in order to remain competitive, they need to do it fast.

Intrinsyc's business model involves offering our customers complete solutions, including hardware and software development kits, follow-on support, and engineering services. These lead to design wins, long-term relationships and recurring revenues. We provide the value-added solutions that world-class companies have come to expect from Intrinsyc. Our customers repeatedly acknowledge our innovation, flexibility and responsiveness to their needs.

Our Allies

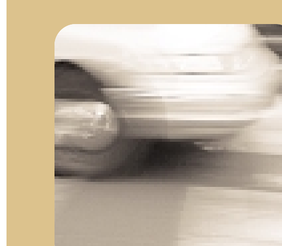
Our customers benefit from the collective experience of Intrinsyc's best-in-class alliances with chip vendors, platform vendors, systems integrators and select technology companies. Working closely with allies offers Intrinsyc's customers complete turnkey solutions for their Internet devices and information appliances. We also receive many references and leads through our partners, particularly through our relationships with Microsoft and Intel. ■

››› [INTRINSYC SOFTWARE] HAVE A PLAN TO LINK JUST ABOUT EVERYTHING ON THE WEB.

CANADIAN BUSINESS, APRIL 2000

"Throughout our longstanding relationship, Intrinsyc has demonstrated excellent flexibility, maintained its position as a technology leader, and surpassed our technical qualifications. Our customers will be well served through our alliance with Intrinsyc."

Wolfgang Hass
Head of PMD Industry, Landis & Staefa Division
Siemens Building Technologies



Ford Motor Company

The Ford Motor Company is the world's second largest manufacturer of cars and trucks, with nearly 400,000 employees worldwide and 1999 revenues of US$162 billion. If you ask the average person on the street to describe Ford in a word, chances are they'll say "Quality". That's why it spoke volumes when Ford asked Intrinsyc to improve the reliability of data collection by its new production quality monitoring software.

Intrinsyc licensed a custom network communications solution to Ford, which was applied seamlessly and effectively to their existing systems. Ultimately, these solutions help Ford to optimize its production process.

Ford is applying Intrinsyc's technological solutions to both new and legacy applications in factories around the world. ■

INSPIRED BY OUR CUSTOMERS

Siemens AG

Siemens AG (Berlin and Munich) is a global powerhouse in electrical engineering and electronics. The company has more than 440,000 employees around the world.

Siemens Building Technologies (SBT), a division of Siemens AG, wanted to bring open-standard communications and remote connectivity into its new Saphir line of intelligent HVACR (heating, ventilation, air conditioning and refrigeration) controllers.

Siemens used Intrinsyc's reference design technologies to create the world's first open-standard HVACR controllers. The new system can be managed remotely via the Internet, programmed using familiar languages, and can interact with existing building management protocols.

This is just one example of the many initiatives underway with other business units at Siemens. ■

TouchStar

A unit of the energy and communications giant, Williams, TouchStar is a world leader in providing end-to-end mobile computing systems to the fuel, aviation, route accounting and field services industries. Thousands of TouchStar's TouchPCs are used by customers in more than 20 countries.

TouchStar wanted to design a next-generation, commercial mobile computing product for a wide variety of industries, including field service, sales force automation and remote point-of-sale. Intrinsyc provided TouchStar with a complete solution: we customized our reference design to suit their purposes; provided engineering services, support, and training; and licensed our reference design and software.

TouchStar's new TouchPC Voyager gives its customers versatile applications in the field and can be remotely monitored and centrally managed, broadening the company's market base. Intrinsyc will continue to provide the company with engineering services and licensable products. Intrinsyc and TouchStar will also enhance their relationship through a joint technology-exchange partnership to better serve TouchStar's customers. ■

))) INTRINSYC APPEARS TO HAVE STELLAR TECHNOLOGY, AND THE ABILITY TO BUILD ON ITS RELATIONSHIPS WITH GLOBAL MANUFACTURERS SIEMENS AND FORD.

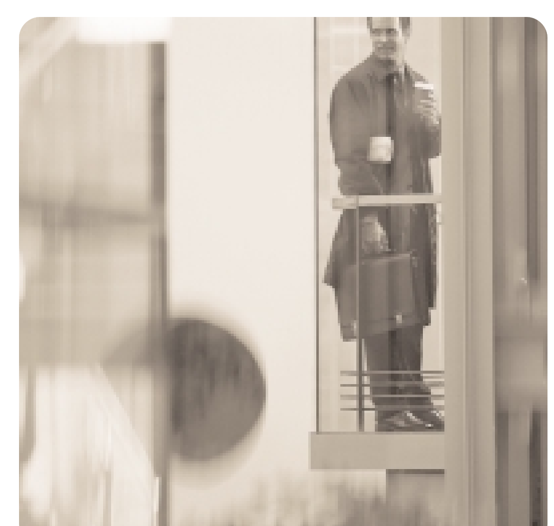
STOCKHOUSE.CA FINANCIAL NEWS, SEPTEMBER 19, 2000

fyiQuest

fyiQuest develops unique hardware and software solutions for customer service, information management and other communication challenges in healthcare environments.

fyiQuest needed a "one-stop shop" to help them develop a new wireless web pad system for the medical industry. Intrinsyc fit the bill, providing a complete, end-to-end solution, from initial conception and system architecture to integration of off-the-shelf products.

Intrinsyc also provided hardware and software prototyping, engineering expertise, and licensable networking software. Intrinsyc's complete solution proved not only flexible, but also extremely cost-effective. ■



INTERPRETING

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Revenue for the year increased to $3.16 million from $2.25 million the previous year. In fiscal 2000, Intrinsyc achieved several key business objectives, emerging as a global leader in providing innovative embedded solutions to world-class companies. We announced several new technologies, including the extremely small and robust CerfBoard SA-1110 Internet appliance reference platform, based on the Intel StrongARM 1110 processor — which proved to be Intrinsyc's core solution for the development of smart, Internet-ready devices.

Microsoft continued to be a key partner of Intrinsyc's. We further improved our foundation embedded Windows offerings, which enhance and extend that operating system's capabilities. We are also working with Microsoft Consulting Services to provide solutions to their customers.

Consistent execution of Intrinsyc's business plan contributed to the success of fiscal 2000. This year the Company took an aggressive step towards operating system independence through the development of our CerfBoard for Linux, which was unveiled to great acclaim and strong customer demand.

The growing acceptance of embedded systems and widespread recognition of Intrinsyc's solutions helped expand Intrinsyc's customer base with Fortune 500 companies and develop high-profile strategic alliances. These alliances with Lineo and MontaVista, two leading embedded Linux providers, enhance penetration into target markets.

〉〉〉 EVERYTHING FROM POP MACHINES TO YOUR HOME ENTERTAINMENT CENTRE WILL NOT ONLY HAVE A SMART CHIP BUT AN INTERNET ADDRESS. AND INTRINSYC'S PRODUCTS ALLOW THOSE EMBEDDED SYSTEMS TO TALK TO EACH OTHER ON A WEB-ENABLED NETWORK.

CANADIAN BUSINESS, APRIL 2000

Results from Operations

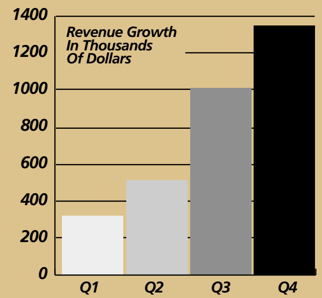
For the fiscal year ending August 31, 2000, Intrinsyc posted revenues of $3,166,423, an increase of 41%, or nearly $1 million, over the previous year. This increase was due primarily to higher solution sales and services relating to the incorporation of the Company's licensable software components into our clients' products. Sales of our development kits, Internet appliance reference platforms and production run-time licenses continue to increase.

During the year, we nearly doubled the size of our customer base. Delivering on our plan to diversify, no one customer accounted for more than 10% of the Company's revenues thus reducing dependence on any one customer.

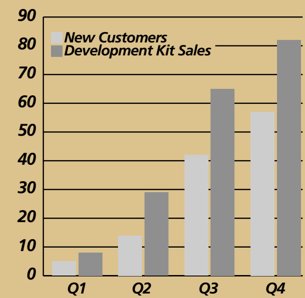
We significantly expanded our operations to build the infrastructure required to deliver on customer orders. These initiatives are reflected in higher costs in fiscal 2000. Net loss for the year grew to $3,398,278 ($0.16 per share) from $2,050,568 ($0.11 per share) as we scaled all aspects of the business.

Cost of Sales increased 26% to $1,573,957 from $1,249,178. The improvement in the gross margin, from 44% to 47%, is attributable to increased sales of software development kits and licensing revenues.

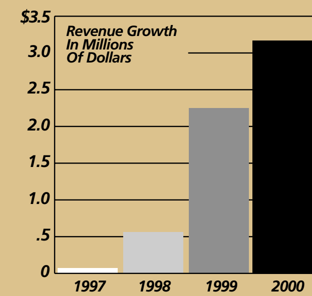
General and Administrative expenses increased 59% to $2,036,467 from $1,277,909 in the previous year. New premises to accommodate our growth, increased professional fees and growth in personnel contributed to the increase.



Fiscal 2000 Revenue by Quarter



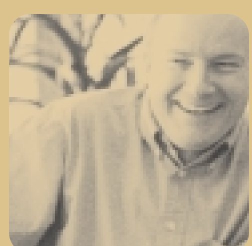
Fiscal 2000 Cumulative Growth

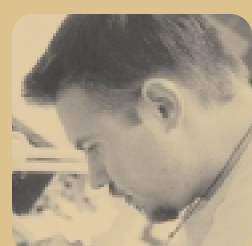


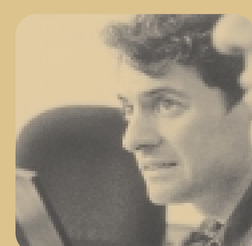
1997 – 2000 Revenue Growth

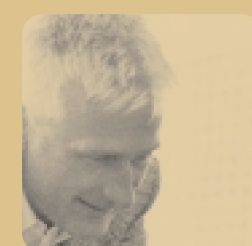
Sales and Marketing expenses increased 73% to $2,035,635 from $1,178,402. This increase is largely due to increased personnel and recruitment costs to build our sales and marketing team, together with a significant increase in our tradeshow presence in our targeted markets.

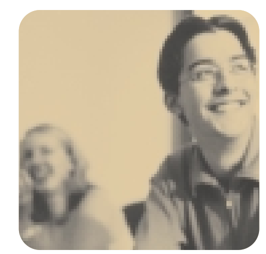
Research and Development costs increased 79% to $918,592 from $513,202 in the prior year as a result of a significant commitment to building our Internet appliance reference capabilities, and increased salaries and benefits.











Liquidity and Capital Resources

As of August 31, 2000, the Company's cash position was $7,188,100, an increase of $6,986,320, and working capital was $7,428,114. The improvement in the company's cash position was due primarily to a successful Special Warrant financing completed in the second fiscal quarter of 2000, which netted proceeds of $5,438,493. Additional cash was generated through private placement, as well as option and warrant exercises. During the past fiscal year, shares were issued at various prices providing financing of $10,459,499 compared to $1,404,623 in fiscal 1999. Intrinsyc continues to have no long-term debt.

During the fiscal year, the Company also made investments in capital assets, primarily computer equipment, and a customer relationship management system, totaling $516,119. Subsequent to the end of the year, the company announced a second Special Warrant financing, which closed subsequent to the year-end. This financing is expected to add $12,500,000 to the Company's working capital.

Risk and Uncertainties

Intrinsyc faces the risks normally associated with emerging technology companies.

Managing Rapid Growth: The Company's growth continues to strain our management systems and resources. Intrinsyc will add personnel, systems, procedures and controls in an efficient and timely manner to support future operations.

Lengthy Sales Cycle: A customer's decision to purchase an Intrinsyc solution involves a commitment of resources, influenced by budget cycles. Intrinsyc's quarterly operating results fluctuate depending on customer orders, new customer engagements, and general economic factors. Intrinsyc will strive to manage growth to reduce possible delays in the development and shipment of new products.

Attracting & Retaining Key Personnel: Intrinsyc's success will depend in part on its ability to attract, train and retain highly skilled technical, managerial and marketing personnel. There is significant demand and competition for these skilled workers, which may result in an increase in operating expenses or hinder the Company's ability to recruit suitable personnel. This challenge is expected to continue in the foreseeable future, and Intrinsyc has reviewed its compensation structure to mitigate this risk.

Increased Competition: This market may attract substantial competition as Intrinsyc announces new products in new markets, and the number and type of competitors will change. We will continue to enhance our embedded solutions to remain attractive to our customers.

>))) THE FUTURE KEEPS GETTING BRIGHTER FOR INTRINSYC.
>
> THE VANCOUVER PROVINCE, AUGUST 23, 2000

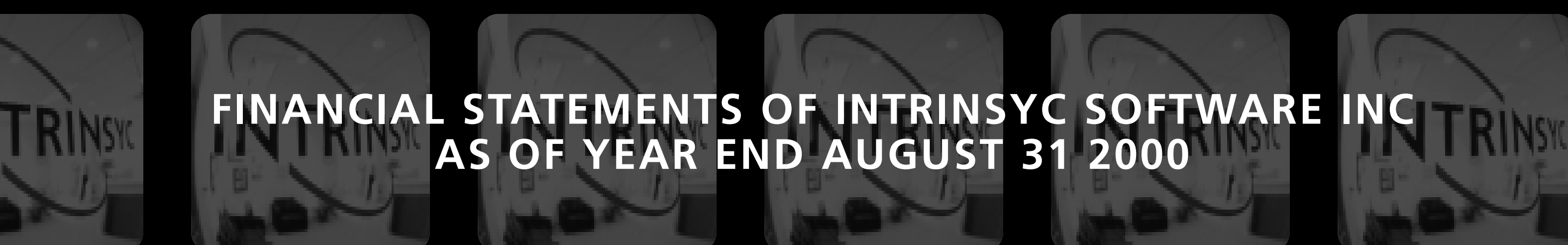
Outlook

Intrinsyc is extremely well positioned to take advantage of the exploding information appliance market. US shipments of information appliances will reach 89 million units (or US $17.8 billion) by 2004 (source IDC).

Our sales forecasts for 2001 indicate continued revenue growth from an increasingly diverse customer base. Target markets currently include mobile computing, industrial and building automation, telecommunications, medical, and point-of-sale. In 2000, we will continue to sell our solutions to leading companies, which will allow them to create, link, and manage Internet devices and information appliances.

Continuing our tradition of rapid and sustained technical innovation is one of our top priorities for 2001. We will continue to showcase our new technologies to the embedded software industry, helping to position Intrinsyc as an operating-system independent solution provider.

The key to achieving our goals in 2001 is our employees. In 2000, we doubled the Intrinsyc team by recruiting technical talent, operational experts, and experienced sales professionals into the Company. We will continue to invest in their development and reward them with ownership in the Company so that they may share in the success of Intrinsyc as it becomes a globally recognized provider of embedded solutions. ■



FINANCIAL STATEMENTS OF INTRINSYC SOFTWARE INC AS OF YEAR END AUGUST 31 2000

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Intrinsyc Software, Inc. as at August 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of generally accepted accounting principles in the United States would have affected the financial position and results of operations for the periods presented to the extent summarized in note 13.

KPMG LLP

Chartered Accountants
Vancouver, Canada

October 12, 2000

CONSOLIDATED BALANCE SHEETS (AUGUST 31, 2000 AND 1999)

	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 7,188,100	$ 201,780
Accounts receivable	688,468	771,153
Inventory	326,606	37,859
Prepaid expenses	63,590	108,805
	8,266,764	1,119,597
Capital assets (note 5)	724,546	305,521
	$ 8,991,310	$ 1,425,118
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 689,735	$ 690,571
Deferred revenue	132,972	—
Obligation under capital lease (note 6)	15,943	—
	838,650	690,571
Shareholders' equity:		
Share capital (note 7)	20,620,778	9,804,387
Deficit	(12,468,118)	(9,069,840)
	8,152,660	734,547
Future operations (note 2)		
Commitments and contingencies (note 9)		
Subsequent events (note 12)		
	$ 8,991,310	$ 1,425,118

** See accompanying notes to consolidated financial statements.*

On behalf of the Board: ____________ Director ____________ Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT (YEARS ENDED AUGUST 31, 2000 AND 1999)

	2000	1999
Revenues	$ 2,974,363	$ 2,232,152
Cost of Sales	1,573,957	1,249,178
	1,400,406	982,974
Expenses:		
Administration	2,036,467	1,277,909
Marketing and sales	2,035,685	1,178,402
Research and development	918,592	513,202
Costs relating to the failed merger with Annabooks Software, LLC (note 4)	—	82,855
	4,990,744	3,052,368
Loss before interest income	3,590,338	2,069,394
Interest income	192,060	18,826
Net Loss	3,398,278	2,050,568
Deficit, beginning of year	9,069,840	7,019,272
Deficit, end of year	$ 12,468,118	$ 9,069,840
Loss per share	$ 0.16	$ 0.11
Weighted average number of shares outstanding	21,893,901	17,981,235

** See accompanying notes to consolidated financial statements.*

CONSOLIDATED STATEMENTS OF CASH FLOWS (YEARS ENDED AUGUST 31, 2000 AND 1999)

	2000	1999
Cash provided by (used in):		
Cash flows from operating activities:		
Net loss	$ (3,398,278)	$ (2,050,568)
Items not involving cash:		
Amortization	128,980	295,938
Expenses settled with the issuance of common shares:		
For services rendered	294,711	306,710
For compensation expense	46,238	51,931
Changes in non-cash operating working capital:		
Accounts receivable	82,685	(456,065)
Due from Annabooks Software, LLC	—	172,965
Inventory	(288,747)	(37,859)
Prepaid expenses	45,215	(77,313)
Accounts payable and accrued liabilities	(836)	(79,274)
Deferred revenue	132,972	—
Cash flows used in operating activities	(2,957,060)	(1,873,535)
Cash flows from investing activities:		
Purchase of capital assets	(516,119)	(163,927)
Cash flows used in investing activities	(516,119)	(163,927)
Cash flows from financing activities:		
Issuance of common shares for cash:		
Special warrants	5,438,493	—
Private placement	900,000	896,619
Options	2,298,705	155,670
Warrants	1,838,244	352,334
Repayment of obligation under capital lease	(15,943)	—
Cash flows used in financing activities	10,459,499	1,404,623
Increase (decrease) in cash and cash equivalents	6,986,320	(632,839)
Cash and cash equivalents, beginning of year	201,780	834,619
Cash and cash equivalents, end of year	$ 7,188,100	$ 201,780
Supplementary information:		
Interest paid	$ 8,594	$ 5,221
Income taxes paid	—	—
Non-cash financing activities:		
Common shares issued for services rendered	294,711	306,710
Common shares issued for employee compensation	46,238	51,931
Aquisition of capital asset funded by capital lease	31,886	—

** See accompanying notes to consolidated financial statements.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (YEARS ENDED AUGUST 31, 2000 AND 1999)

1. Organization:

The Company was incorporated on August 31, 1992 under the laws of Alberta and continued under the Company Act (British Columbia) on July 19, 1995. The Company provides an integrated framework of embedded hardware, software and service solutions for creating, linking and managing Internet Devices and information appliances.

2. Future operations:

During the year ended August 31, 2000, the Company incurred a loss of $3,398,278 and used cash in operating activities of $2,957,060. As at August 31, 2000, the Company has incurred cumulative losses of $12,468,118. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern under which an entity is considered to be able to realize its assets and satisfy its liabilities in the normal course of business.

The Company's continuance as a going concern is dependent upon its ability to obtain adequate equity financing, to increase sales of its product, to generate positive cash flows from operations and ultimately attain profitability. Subsequent to year end, $13,500,000 was raised through a private placement. (see note 12)

The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

3. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A reconciliation of material measurement differences between these principles and accounting principles generally accepted in the United States of America is shown in note 13.

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Intrinsyc Software (USA) Inc. The Company has eliminated all significant intercompany balances and transactions.

(b) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

(c) Cash equivalents:

Cash equivalents include short-term deposits, which are all highly marketable securities with a maturity of three months or less when acquired. Short-term deposits are valued at cost.

(d) Inventory:

Inventory is valued at the lower of cost and net realizable value with cost being determined on a first-in-first-out basis. Cost includes cost of materials.

(e) Research and development:

The Company expenses research costs as they are incurred. Development costs are expensed as incurred unless they meet certain specified criteria for deferral and amortization. No development costs have been deferred in the current period as the criteria for deferral were not met.

(f) Capital assets:

Capital assets are initially recorded at cost. Amortization is subsequently provided on the following basis:

Assets	Basis	Rate
Computers and equipment	declining-balance	30%
Computer software	straight-line	3 years
Furniture and fixtures	declining-balance	20%

Leasehold improvements are amortized on a straight-line basis over the shorter of the initial lease term or their expected useful life.

(g) Revenue recognition:
The Company generally recognizes product revenue upon transfer of title, which generally occurs on shipment of product unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. Revenue from support obligations is deferred and generally recognized ratably over the period of the obligation. Revenue from consulting and other services is recorded as the services are performed if there is reasonable certainty as to collectability.

(h) Warranty costs:
The Company accrues warranty cost based on managements' best estimate, with reference to past experience.

(i) Share issue costs:
The Company reduces the value of consideration assigned to shares issued by the costs, net income tax recoveries, of issuing the shares.

(j) Impairment of capital assets:
The Company monitors the recoverability of capital assets, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when the Company determines that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to the undiscounted future cash flows. To August 31, 2000, the Company has not recorded any such impairment losses.

(k) Translation of foreign currencies:
Transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect on the transaction date. Monetary items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

(l) Share compensation:
The Company has one share-based compensation plan, which is described in note 7. No compensation expense is recognized for this plan when share options are issued to employees. Any consideration paid by employees on exercise of share options is credited to share capital.

Shares issued for non-cash consideration are valued at the average fair value of the Company's stock for the ten day period prior to the date the obligation for issuance occurs.

(m) 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.

(n) Income taxes:
The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the substantial enactment date. Future income tax assets are evaluated and if their realization is not considered "more likely than not", a valuation allowance is provided.

(o) Comparative figures
The Company has reclassified certain of the figures presented for comparative purposes to conform to the financial statement presentation adopted in the current year.

4. Annabooks Software, LLC:
Advances totaling US $238,000 were made to Annabooks Software, LLC ("Annabooks"), a California limited company, at August 31, 1998. These advances were made in anticipation of a proposed merger between Annabooks and the Company that was subsequently cancelled. Advances of US $110,000 were repaid by Annabooks and the balance was included in the calculation of the amount written-off. In addition, all of the Company's other costs directly relating to the merger have been expensed.

5. Capital assets:

2000	Cost	Accumulated Amortization	Net Book Value
Computers and equipment	$ 675,340	$ 254,323	$ 421,017
Computer software	256,324	33,520	222,804
Furniture and fixtures	81,387	16,165	65,222
Leasehold improvements	16,223	720	15,503
	$ 1,029,274	$ 304,728	$ 724,546

1999	Cost	Accumulated Amortization	Net Book Value
Computers and equipment	$ 410,610	$ 155,792	$ 254,818
Computer software	34,199	11,213	22,986
Furniture and fixtures	32,263	8,743	23,520
Leasehold improvements	4,197	—	4,197
	$ 481,269	$ 175,748	$ 305,521

As at August 31, 2000, an asset under a capital lease with a cost of $31,886 (1999 - $nil) and accumulated amortization of $8,354 (1999 - $nil) is included in capital assets.

6. Obligation under capital lease:
During the year, the Company entered into a capital lease for a trade show booth. As at August 31, 2000, minimum lease payments are as follows:

2001	17,877
Less amount representing interest at 11%	(1,934)
Current portion of obligation under capital lease	$ 15,943

7. Share capital:
(a) Authorized:
100,000,000 common shares without par value
10,000,000 preference shares without par value

(b) Issued:

	Number of Shares	Amount
Outstanding, August 31, 1998	17,360,397	$ 8,041,123
Shares issued for cash on:		
Private placement, net of share issue costs	1,120,774	896,619
Exercise of warrants	555,349	352,334
Exercise of options	278,247	155,670
Shares issued in consideration of:		
Services rendered	314,318	306,710
Compensation for employees	49,458	51,931
Outstanding, August 31, 1999	19,678,543	$ 9,804,387
Shares issued for cash on:		
Private placement	900,000	900,000
Exercise of special warrants, net of share issue costs	3,000,000	5,438,493
Exercise of warrants	1,212,595	1,838,244
Exercise of options	2,582,081	2,298,705
Shares issued in consideration of:		
Services rendered	323,859	294,711
Compensation for employees	39,207	46,238
Outstanding, August 31, 2000	27,736,285	$ 20,620,778

(c) Share option plan:
Under the terms of the Company's employee share option plan, the Board of Directors may grant options to employees, officers and directors. The plan provides for the granting of options at the average fair market value of the Company's stock ten days before the grant date. Options granted before May 11, 1999 generally vest over two and one-half years with the first 10% vesting at the first quarter anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. Options granted after May 11, 1999 generally vest over three years with the first 1/12 vesting at the first quarter anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five year term. The Company has reserved 6,076,138 options for issuance under its employee share option plan.

During the year, the exercise price related to 607,000 options previously granted was amended.

A summary of the Company's share option activity for the years ended August 31, 2000 and 1999, presenting on a retroactive basis the effect of the option repricing, is as follows:

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price
Outstanding, August 31, 1998	3,524,482	$ 0.89
Options granted	2,040,000	1.26
Options exercised	(278,247)	0.56
Options cancelled	(202,000)	1.15
Outstanding, August 31, 1999	5,084,235	1.05
Options granted	1,985,200	2.95
Options exercised	(2,582,081)	0.89
Options cancelled	(758,522)	1.27
Outstanding, August 31, 2000	3,728,832	$ 2.09

The following table summarizes the share options outstanding at August 31, 2000:

Options Outstanding				Options Exercisable	
Range of Excercise Price	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Excercise Price	Number Excercisable	Weighted Average Excercise Price
$ 0.59 - $ 1.21	1,325,647	2.92 years	$ 1.06	802,674	$ 1.09
$ 1.26 - $ 2.97	1,303,067	4.07 years	$ 1.83	374,910	$ 1.29
$ 3.05 - $ 4.50	1,100,118	4.80 years	$ 3.68	118,849	$ 3.47
	3,728,832	3.75 years	$ 2.09	1,296,433	$ 1.38

(d) Share purchase warrants:
A summary of the Company's share purchase warrants for the years ended August 31, 2000 and 1999 is as follows:

	Outstanding Warrants	
	Number of Warrants	Weighted Average Warrant Price
Outstanding, August 31, 1998	1,623,171	$ 1.34
Warrants granted	937,500	1.10
Warrants exercised	(555,349)	0.63
Warrants cancelled	—	—
Outstanding, August 31, 1999	2,005,322	$ 1.43
Warrants granted	2,250,000	2.16
Warrants exercised	(1,212,595)	1.52
Warrants cancelled	(718,827)	1.71
Outstanding, August 31, 2000	2,323,900	$ 2.01

(e) Special Warrants:
During fiscal 2000, the Company issued 3,000,000 Special Warrants (the "Special Warrants") for $2.00 per Special Warrant. Pursuant to an agency agreement, the Company paid the Agent a commission of 7% of the gross proceeds from the sale of the Special Warrants. The Company also granted to the Agent a non-assignable warrant (the "Agent's Warrant") to acquire an option (the "Agents" Compensation Option). The Agent's Compensation Option will entitle the Agent to purchase 300,000 shares, at a price per share of $2.00 until February 28, 2001 and thereafter at a price of $2.30 until February 28, 2002.

Upon exercise of each Special Warrant, the holder was issued one common share and one half of one warrant (the "Warrant"). These Special Warrants were exercised in the year. Each whole Warrant entitles the holder to acquire one common share at a price per share of $2.50 until February 28, 2002.

8. Income taxes:
Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 44.6% (1999 - 45.6%) to income before income taxes due to valuation allowances provided against losses incurred in the year.

The composition of the Company's future tax assets at August 31, 2000 and 1999 are as follows:

	2000	1999
Future tax assets:		
Accounting amortization in excess of tax	$ 195,000	$ 12,900
Loss carry forwards	4,970,000	4,054,000
Share issue costs	214,000	21,600
	5,379,000	4,088,500
Less valuation allowance	(5,379,000)	(4,088,500)
	$ —	$ —

The future tax assets have not been recognized in these consolidated financial statements as management does not consider it more likely than not that such assets will be realized in the carry forward period.

As at August 31, 2000, the Company has non-capital loss carry forwards aggregating approximately $11,145,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

2001	$ 86,000
2002	352,000
2003	607,000
2004	1,900,000
2005	3,200,000
2006	1,700,000
2007	3,300,000
	$ 11,145,000

9. Commitments and contingencies:
The Company has lease commitments for office premises and equipment with remaining terms of up to five years. The minimum lease payments in each of the next five years is approximately as follows:

2001	$ 354,000
2002	336,000
2003	335,000
2004	335,000
2005	335,000
	$ 1,695,000

10. Financial instruments and risk management:

(a) Fair values:
The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value due to their short maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, the carrying value of the obligation under capital lease approximates fair value.

(b) Concentrations of business risk:
The Company maintains substantially all of its cash and cash equivalents with major financial institutions in Canada. Deposits held with banks may exceed the amount of insurance provided on such deposits. However, as the Company can generally redeem these deposits upon demand, the Company bears minimal risk.

The Company outsources the manufacturing of its products to a third party. The Company is therefore dependent upon the development and deployment by third parties of its manufacturing abilities. The inability of any supplier or manufacturer to fulfill supply requirements could impact future results.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. Management is of the opinion that any risk of accounting loss is significantly reduced due to the financial strength of the Company’s major customers. The Company performs on-going credit evaluations of its customers’ financial condition and requires letters of credit or other guarantees whenever deemed necessary.

Although substantially all of the Company’s revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding indebtedness that is denominated in Canadian dollars. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company mitigates this risk by denominating many of its payment obligations in U.S. dollars.

11. Segmented information:

(a) Operating segments:
The Company operates in the sale and service of embedded hardware and software solutions and all sales of the Company’s products and services are made in this segment. Management makes decisions about allocating resources based on the one operating segment.

(b) Geographic information:
All of the Company's capital assets are located in Canada. The Company earned revenues attributed to the following countries based on the location of the customer:

	2000	1999
United States	$ 1,848,186	$ 1,877,891
Canada	609,207	190,338
Other	516,970	163,923
	$ 2,974,363	$ 2,232,152

c) Significant customers:
For the year ended August 31, 2000, there were no significant customers. For the year ended August 31, 1999, revenue from one customer represented approximately $1,474,000 of the Company’s total revenue.

12. Subsequent events:
Subsequent to year end, the Company:

(a) Issued 279,907 common shares for proceeds of $252,951 from the exercise of options and issued 167,250 common shares for proceeds of $314,850 from the exercise of warrants.

(b) Granted employee stock options to purchase 95,750 common shares at an exercise price of $5.30 per share, expiring on October 4, 2005.

(c) Completed a private placement of 3,000,000 Special Warrants at $4.50 per Special Warrant, for gross proceeds of $13,500,000. Each Special Warrant entitles the holder to one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant is exercisable into one common share at $5.85 to February 25, 2002. A fee equal to 7% of the gross proceeds of the offering was payable to the agent.

13. United States Generally Accepted Accounting Principles:

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which differ, in certain respects, from accounting principles generally accepted in the United States of America and from requirements promulgated by the United States Securities and Exchange Commission ("SEC"). Material measurement differences to these consolidated financial statements are as follows:

(a) Reconciliation of consolidated statements of operations:

	2000	1999
Net loss in accordance with Canadian GAAP	$ 3,398,278	$ 2,050,568
Share options granted to employees (1)	2,174,511	171,577
Deferred development costs (2)	—	(219,820)
Loss determined under United States GAAP	$ 5,572,789	$ 2,002,325
Loss per share under United States GAAP	$ 0.25	$ 0.11

(1) Under United States GAAP, the repricing of stock options such as described in note 7(c) results in such options being considered to be variable in nature and compensation expense being recorded equal to changes in the market value of the underlying common shares. The variable plan accounting has been applied prospectively for market value changes subsequent to June 30, 2000. In addition, compensation expense is recognized to the extent that options are granted having an exercise price less than the market price of the underlying share on the date of grant.

(2) Deferred product development costs incurred and capitalized in 1998 and expensed in 1999 under Canadian GAAP are expensed under United States GAAP in the year incurred.

(b) Loss per share:

Basic loss per share is calculated under Canadian and United States GAAP using the same weighted average number of common shares outstanding. Diluted loss per share under United States GAAP is based on the weighted average number of common shares and dilutive common share equivalents outstanding. When dilutive, stock options and warrants are included as share equivalents using the Treasury Stock method. For the years presented, diluted loss per share is the same as the basic calculation, as all stock options and warrants outstanding were anti-dilutive.

(c) Reconciliation of consolidated balance sheets:

	2000	1999
Share capital in accordance with Canadian GAAP	$ 20,620,778	$ 9,804,387
Accumulated share options compensation expense	2,380,564	206,053
Share capital in accordance with United States GAAP	$ 23,001,342	$ 10,010,440
Deficit in accordance with Canadian GAAP	$ (12,468,118)	$ (9,069,840)
Accumulated share options compensation expense	(2,380,564)	(206,053)
Deficit in accordance with United States GAAP	$ (14,848,682)	$ (9,275,893)

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