2005 ANNUAL REPORT

Corporate PROFILE

Intrinsyc is a mobility software and services company. The company is comprised of three business units: Mobile Software Products (MSP), Mobile and Embedded Solutions (MES) and Enterprise Interoperability Solutions (EIS). Intrinsyc's technologies and services make it possible for customers to identify, create, and deliver innovative mobile devices and solutions that help them build stronger and more successful businesses.

Since 1996, through creativity and technical proficiency, Intrinsyc has been developing intellectual property software for the "connected device". This software has greatly assisted global corporations such as BEA, Hand Held Products, Nokia, Siemens and Symbian to be leaders in their fields. Strong alliances with companies such as Microsoft, Intel, and Texas Instruments have played a key role in Intrinsyc's continued success. Intrinsyc's strategic alliances continue to expand and strengthen its capacity to deliver innovative mobile technology solutions.

Intrinsyc creates and licenses mobile and embedded software products to original equipment manufacturers and original device manufacturers and provides value added professional engineering services to support both Intrinsyc's and its customers' mobile and embedded products and technology. Intrinsyc also creates and licenses a suite of server based interoperability software solutions enabling its customers and partners to connect disparate applications.

Intrinsyc is proud of the vast number of superior technology solutions it has created to strengthen companies around the world. Intrinsyc is also proud of its people, whose talent and dedication made those solutions possible. At Intrinsyc, every client is valued and ensured a relationship with a team of technology experts unmatched in the industry for innovation.

Intrinsyc is a publicly traded company, headquartered in Vancouver, BC Canada with offices in Bellevue, Washington USA, Birmingham, England UK and Belleville, St. Michael Barbados.

2005

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Message to our SHAREHOLDERS

A YEAR OF STRENGTH AND GROWTH. As Intrinsyc Software heads into fiscal year 2006, we are very happy to report we ended our fiscal year 2005 with record revenues for our 4th quarter and for the fiscal year. We have a strong and growing business with positive news on many fronts.

2005 will go down in the history of Intrinsyc as the pivotal year that set the stage for our innovative feature phone software suite's aggressive growth into the burgeoning mobile handset software market.

We started fiscal 2005 by creating three distinct business units:

- Our core Mobile and Embedded Solutions (MES) group that leads our Microsoft Windows and Symbian technology services delivery teams.

- Our Mobile Software Products (MSP) group that is responsible for the development and licensing of our new feature phone software products.
- Our Enterprise Interoperability Solutions (EIS) group that manages our successful J-Integra software licensing practice.

Fiscal 2005 saw three major initiatives:

- We ran our core business units as cash positive entities, contributing capital towards our MSP related investments.
- We made major investments into our MSP group as it continues to develop and commercialize our feature phone software suite.
- We obtained two successful financings during the year, with the second round closing in Q1 06. In total, we raised more than $12 million in net proceeds towards the funding of our feature phone activities in 2005 and 2006.

A Solid Core Business with Rapid Expansion

Back in 2003, when our new strategic plans in the mobile handset market were in their earliest stages of development, our long term stated goals were to move the business away from its general reliance on services revenues by investing in new software

products. In parallel, there was a need to rationalize the existing business and drive improvement in margins.

By the beginning of 2005, we had completed these first stage tasks, resulting in a solid core business and a decision to rapidly expand our mobile handset software development initiatives. Our feature phone and related software products now promise success in strong future licensing revenues as we commercially ship these products to a waiting market.

As we enter 2006, our core business units continue to thrive as very healthy growing entities that will increase product synergies and leverage our feature phone investments and business development activities. Simply put;

"As we engage with customers and partners on our feature phone software initiatives, we continue to generate parallel opportunities for our MES services teams on related handset development work - and vice versa."

This has been and will continue to be one of the primary drivers of our core business growth.

2005 Milestones

Other milestones for fiscal 2005 include:

- Establishing our Bellevue, WA office in the United States along with the recruitment and rapid expansion of the feature phone product and market development teams.
- Completing our M1 and M2 feature phone development milestones on time and under budget.
- Establishing key mobile handset manufacturer and silicon vendor relationships with healthy ongoing carrier handset discussions.

In 2005, we also excelled in employee retention and recruitment. Key wireless industry hires highlighted the industry leaders' positive response to our market opportunities. With an overall increase in staffing from 101 to 168 employees and no substantial key employee attrition, year over year, there is a noticeable increase in employee satisfaction and commitment to the future of our corporation. This has been supplemented by the recruitment of many first rate candidates for new general staff and management positions. A great team is now in place and as a team moving forward, we are highly motivated to create greater shareholder value.

On a similar front, we continue to make extensive improvements in formalizing operating policies and procedures, internal controls, financial reporting and communications with important long term contributions to Intrinsyc's future success. All of this adds up to a very

making mobility work

solid foundation for building our business in fiscal 2006 and beyond. We have all of the right ingredients for success: the team, knowledge, technology, industry relationships, reputation, and a strong leadership position in the mobile handset software market.

Delivering Success in 2006

2006 is expected to deliver us our first feature phone software suite customer. We expect to see a significant ramp up in our annual software licensing revenues in an addressable market of 500 million feature phone handsets. With a strong and growing core business, we believe these new opportunities will be beneficial to the company and our shareholders.

We are excited about the challenges ahead and look forward to the success as a result of our cumulative initiatives. We would like to close by thanking all of our stakeholders including our loyal investors, our skilled and dedicated staff, and our valued customers and partners. We appreciate your continued support and look forward to a prosperous 2006 together.

- Derek Spratt & Vince Schiralli

2005

Management's DISCUSSION & ANALYSIS

Intrinsyc Software

Management's Discussion and Analysis

November 9, 2005

This management discussion and analysis covers our audited annual consolidated financial statements as at, and for the three and twelve month periods ended August 31, 2005. Management's discussion and analysis of the financial condition and results of operations of Intrinsyc Software International, Inc. (the "Company") should be read in conjunction with the annual consolidated financial statements and the notes thereto that are prepared in accordance with Canadian generally accepted accounting principles, (GAAP). All amounts are presented in Canadian dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

Special Note Regarding Forward-Looking Statements

The following discussion and analysis of the financial conditions and results of operations contains "forward-looking statements". In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology. These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, expected activities and expenditures as the Company pursues its business plan, the adequacy of the Company's available cash resources and other statements about future events or results. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, forward-looking statements are subject to business and economic risks and uncertainties and other factors that could cause actual results of operations, levels of activity, performance or achievements to differ materially from those contained in the forward-looking statements. Consequently, all forward looking statements made in this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. Some of these risks, uncertainties and other factors are described herein under the heading "Risks and Uncertainties" and in the most recent Annual Information Form under the heading "Risk Factors". The Company disclaims any intent or obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

Overview

Fiscal 2005 Statement of Operations

Comparison of Fiscal 2005 and Fiscal 2004

	F2005	F2004	Change	%
Revenue	**$17,539,105**	$15,175,928	$2,363,177	15.57%
Gross Margin	**$8,458,106**	$6,767,984	$1,690,122	24.97%
Gross Margin%	**48.22%**	44.60%	-	-
Marketing and Sales	$3,008,441	$3,045,099	$36,658	1.20%
Research and Development -Mobile Software Products	$3,050,093	$0	($3,050,093)	-
Other Research & Development	$992,686	$1,681,003	$688,317	40.95%
Administration Expense	$4,185,208	$3,178,235	($1,006,973)	(31.68%)
Stock based Compensation	$816,214	$631,342	($184,872)	(29.28%)
Amortization	$825,150	$1,097,774	$272,624	24.83%
Technology Partnerships Canada	$214,652	($219,053)	($433,705)	(197.99%)
Restructuring Costs	$0	$623,000	$623,000	100.00%
Total Operating Expenses	**$13,092,444**	$10,037,400	($3,055,044)	(30.44%)
Foreign Exchange Loss (Gain)	$482,657	($35,591)	($518,248)	(1456.12%)
Interest Income	($119,830)	($7,971)	$111,859	1,403.32%
Income Tax Recovery	($17,184)	($134,271)	($117,087)	87.20%
Net Loss	**$4,979,981**	$3,091,583	($1,888,398)	(61.08%)
Net Loss Per Share	$0.09	$0.07	($0.02)	(28.57%)

Overall, the increase in the net loss for fiscal 2005, compared to the net loss for fiscal 2004, was substantially the result of:

- The impact of foreign exchange on revenue. The weakening US dollar decreased revenue in fiscal 2005 by approximately 7%, or $1,050,000, relative to Canadian dollar revenues, had the US currency's value remained unchanged relative to the Canadian dollar in fiscal 2004.
- The expenditure on the development of mobile software products at the Company's Bellevue, Washington State location.
- The increase in administration expense due to an increase of salary costs as a result of new positions, and the classification of salary costs to administration that were previously classified as sales and marketing, in fiscal 2004. The new classification of these salary expenses was the result of the redefinition of certain roles and responsibilities due to the implementation of the business unit organizational structure in the first and second quarters of fiscal 2005. The business unit organization structure was put in place in order to facilitate the positioning of the Company as a software and solution provider in the consumer and enterprise mobility markets.
- Amortization expense relating to capital and intangible assets. Intangible assets are amortized on a declining balance basis therefore the expense has decreased.
- The increase in stock based compensation expense due to a higher number of stock options granted in fiscal 2005 (2,009,000) as compared to fiscal 2004 (1,608,000), and an increase in the stock price volatility utilized in the Black Scholes model from 155.8% to 171.7%.
- The Company did not recognize any Technology Partnerships Canada (TPC) funding in fiscal 2005, but it did recognize substantial amounts in fiscal 2004. The Company is continuing to negotiate an extension to its TPC agreement, which expired in March 2004. If the extension is granted by TPC the Company will be required to pay approximately $387,000 and the original terms and conditions will be amended.
- The foreign exchange losses in fiscal 2005, compared to the gains in fiscal 2004, which are due to a substantial strengthening of the Canadian dollar relative to the US dollar in the first and fourth quarter of fiscal 2005. During the second quarter of fiscal 2005, the Company implemented a foreign exchange hedging program to hedge approximately 60% to 80% of its net monthly US dollar cash receipts against the Canadian dollar.
- The increase in interest income is due to the $5,000,000 short term deposit held in fiscal 2005. There was no short term deposit in fiscal 2004.
- The decrease in the income tax recovery is the result of reversing an £18,000 ($39,000) expected tax recovery that did not transpire and a $72,000 income tax expense related to transfer pricing.

Fourth Quarter

Comparison of Fourth Quarter Fiscal 2005 and Fourth Quarter Fiscal 2004

	Q4 F2005	Q4 F2004	Change	%
Revenue	**$5,412,588**	$3,835,648	$1,576,940	41.11%
Gross Margin	**$2,751,235**	$1,950,244	$800,991	41.07%
Gross Margin%	**50.83%**	50.85%		
Marketing and Sales	$737,677	$849,863	$112,186	13.20%
Research and Development -Mobile Software Products	$1,375,266	$0	($1,375,266)	-
Other Research & Development	$209,463	$333,833	$124,370	37.26%
Administration Expense	$1,005,849	$929,936	($75,913)	(8.16%)
Stock based Compensation	$241,694	$153,447	($88,247)	(57.51%)
Amortization	$196,891	$218,143	$21,252	9.74%
Technology Partnerships Canada	$225,000	$384,021	$159,021	41.41%
Restructuring Costs	$0	$323,000	$323,000	100.00%
Total Operating Expenses	**$3,991,840**	$3,192,243	($799,597)	(25.05%)
Foreign Exchange Loss	$288,758	$342,790	$54,032	(15.76%)
Interest Income	($29,642)	($12,908)	($16,734)	129.64%
Income Tax Expense (Recovery)	$35,384	($21,700)	$57,084	(263.06)%
Net Loss	**$1,535,105**	$1,550,181	$15,076	0.97%
Net Loss Per Share	$0.03	$0.04	$0.01	25.91%

Overall, the decrease in the net loss for the fourth quarter of fiscal 2005 compared favorably to the net loss for the same quarter of 2004. The increased expenditures on the development of mobile software products, at the Company's Bellevue, Washington State location, were offset by increased revenue, and reduced expenditures on Other Research and Development, Marketing and Sales, Restructuring Costs and Technology Partnerships Canada.

The improvement in revenues in the fourth quarter of fiscal 2005, compared to the fourth quarter of fiscal 2004, continues to be the result of the success of the sales reorganization and the focus on mobility opportunities. In addition, fourth quarter revenues were further increased by $483,000 from two large sales in Enterprise Interoperability Solutions (EIS). However, revenue was impacted negatively by foreign exchange. The weakening US dollar decreased revenue in the fourth quarter of fiscal 2005 by approximately 8%, or $360,000, relative to Canadian dollar revenues had the currency's value remained unchanged relative to the Canadian dollar value in the fourth quarter of fiscal 2004. The gross margin percentage remained constant in the fourth quarter of fiscal 2005 compared to the fourth quarter of fiscal 2004.

The expenditure on the development of mobile software products accounted for the majority of the increase in total operating expenses during the fourth quarter of fiscal 2005, compared to the fourth quarter of fiscal 2004. The increase was offset by a decrease in Marketing and Sales, Other Research and Development, Technology Partnerships Canada and Restructuring Costs.

The increase in stock based compensation expense is due to a higher number of stock options granted and outstanding in the fourth quarter of fiscal 2005, as compared to the fourth quarter of fiscal 2004, and an increase in the stock price volatility utilized in the Black Scholes model from 165.5% to 173.2%.

Amortization relates to capital assets which are amortized on a declining balance method and intangible assets which are amortized on a straight line basis. Amortization declined in the fourth quarter of fiscal 2005, versus the fourth quarter of fiscal 2004, due to declining balance of capital assets in fiscal 2005 and intangible assets that were fully amortized in fiscal 2004 and no longer amortized in fiscal 2005.

Expenses related to TPC, recorded in the fourth quarter of 2005, relate to accrued royalty distributions of $225,000. The TPC audit is complete and the Company is currently negotiating an extension of its TPC agreement which expired in March, 2004. The outcome of these negotiations is not known or determinable at this time, accordingly no provision has been made.

The foreign exchange loss in the fourth quarter of fiscal 2005 was less than the foreign exchange loss of the fourth quarter of fiscal 2004. This decrease is the result of the relatively strengthening Canadian dollar, relative to the US dollar. The Canadian dollar strengthened at a slower pace in the fourth quarter of fiscal 2005 versus the fourth quarter of fiscal 2004. Consequently the foreign exchange loss is smaller. The foreign exchange losses were mitigated by an effective hedging strategy that reduced the foreign exchange loss by approximately $16,000. The Company has a foreign exchange hedging program that effectively hedges approximately 60% to 80% of its net monthly US dollar receipts against the Canadian dollar. A stronger Canadian dollar also adversely affected revenue as the majority of the Company's revenues are denominated in US dollars, whereas the majority of its costs are in Canadian dollars.

The increase in interest income is due to the $5 million short term deposit held in fiscal 2005. In fiscal 2004 there was no short term deposit.

The income tax expense is primarily the result of reversing tax related accruals for anticipated income tax expenses that did not transpire and recording income tax expenses relating to transfer pricing.

During the fourth quarter of fiscal 2005 Intrinsyc Software International, Inc. (ICS) established a new wholly-owned subsidiary, Intrinsyc Software (Barbados) Inc (ISB), incorporated in Barbados. Subsequent to this event ICS sold certain rights to its intellectual property to ISB and ISB is obligated, under the terms of the sale, to continue the development of this intellectual property. ICS continues to retain the right to exploit the intellectual property within Canada.

Comparison of Fourth Quarter Fiscal 2005 and Third Quarter Fiscal 2005

	Q4 F2005	Q3 F2005	Change	%
Revenue	**$5,412,588**	$4,275,715	$1,136,873	26.59%
Gross Margin	**$2,751,235**	$1,954,972	$796,263	40.73%
Gross Margin%	**50.83%**	45.72%	-	-
Marketing and Sales	$737,677	$757,428	$19,751	2.61%
Research and Development -Mobile Software Products	$1,375,266	$879,901	($495,365)	(56.30%)
Other Research & Development	$209,463	$204,914	($4,549)	(2.22%)
Administration Expense	$1,005,849	$1,110,831	$104,982	9.45%
Stock based Compensation	$241,694	$221,012	($20,682)	(9.36%)
Amortization	$196,891	$213,350	$16,459	7.71%
Technology Partnerships Canada	$225,000	$27.341	($197,659)	(722.94%)
Total Operating Expenses	**$3,991,840**	$3,414,777	($577,063)	(16.90%)
Foreign Exchange Loss (Gain)	$288,758	($128,398)	($417,156)	(324.89%)
Interest Income	($29,642)	($38,248)	($8,606)	(22.50%)
Income Tax Expense (Recovery)	$35,384	($5,264)	($40,648)	772.19%
Net Loss	**$1,535,105**	$1,287,895	($247,210)	(19.19%)
Net Loss Per Share	$0.03	$0.02	($0.01)	(50.00%)

Overall, the increase in the net loss for the fourth quarter of fiscal 2005, compared to the net loss for the third quarter of fiscal 2005, is the result of the increase in the expenditure on the development of mobile software products, the accrual of royalties due under the TPC agreement and foreign exchange losses. Gross margin increased in the fourth quarter of fiscal 2005, versus the third quarter of fiscal 2005, due to the two large sales in EIS. Gross margins on EIS revenue are high as it markets software and associated support and maintenance.

The increase in stock based compensation expense is due to a greater number of options being granted, and outstanding, in the fourth quarter of fiscal 2005 as compared to the third quarter of fiscal 2005.

The amortization expense, TPC expense, foreign exchange gain, interest income and income tax recovery are explained above.

Fiscal 2005
Cash Flows

Cash Flows Comparison of Year-to-date Fiscal 2005 and Fiscal 2004

Cash Provided by (used in)	**YTD F2005**	**YTD F2004**	**Change**
Operating Activities	($1,669,123)	($857,043)	($812,080)
Investing Activities	($737,191)	($1,486,782)	$749,591
Financing Activities	$5,124,064	$23,500	$5,100,564
Increase (Decrease) In Cash and Cash Equivalents	$2,717,750	($2,320,325)	$5,038,075

For fiscal 2005, operating activities consumed approximately $810,000 more in cash compared to fiscal 2004 largely as a result of the expenditure on the development of mobile software products primarily at its Bellevue, Washington location. Fiscal 2005 included receipt of $985,000 that was owed by Technology Partnerships Canada. Cash used in investing activities was higher in fiscal 2004 due to a loan note redemption of $862,950 related to the IEL acquisition. The increase in cash provided by financing activities was the result of the rights-offering. The rights-offering was completed in the first quarter of fiscal 2005 and was fully subscribed. The rights were exercised, resulting in the issuance of a total of 11,246,743 common shares on October 28, 2004, with gross proceeds amounting to $5,632,671 at $0.50 per common share. Net proceeds amounted to $5,124,064.

Fourth Quarter
Fiscal 2005
Cash Flows

Comparison of Fourth Quarter Fiscal 2005 and Fourth Quarter fiscal 2004

Cash Provided by (used in)	**Q4 F2005**	**Q4 F2004**	**Change**
Operating Activities	$40,227	($1,457,732)	$1,497,959
Investing Activities	$4,687,451	($92,108)	$4,779,559
Increase (Decrease) In Cash and Cash Equivalents	$4,727,678	($1,549,840)	$6,277,518

The Company ended the fourth quarter of fiscal 2005 with cash and cash equivalents and short term deposits totaling $7.3 million, as compared to $4.6 million at the end of fiscal 2004.

Cash used in operating activities decreased by approximately $1.5 million in the fourth quarter of fiscal 2005 as compared to the fourth quarter of fiscal 2004. A collections program initiated in the fourth quarter successfully reduced outstanding receivables by approximately $803,000. The remaining difference is attributed to increases in operating liabilities. Specifically, the combined impact of increases in taxes payable, accounts payable and accrued liabilities, and deferred revenue further reduced the cash used in operating activities by approximately $617,000. The cash from investing activities decreased as excess cash that was considered to be a short term investment in prior quarters, per Generally Accepted Accounting Principles, was reclassified to cash and cash equivalents as the financial instrument became more liquid.

Results of Operations

Fiscal 2005
Revenue

Comparison of Fiscal 2005 and Fiscal 2004

	YTD F2005	**%Total Rev**	**YTDF2004**	**%Total Rev**	**Change**	**%**
Hardware Revenue	$1,944,910	11.09%	$2,707,584	17.84%	($762,674)	(28.17%)
Software Revenue	$2,670,154	15.22%	$3,104,093	20.45%	($433,939)	(13.98%)
Services Revenue	$12,924,041	73.69%	$9,364,251	61.70%	$3,559,790	38.01%
Total Revenue	$17,539,105	100.00%	$15,175,928	100.00%	$2,363,177	15.57%

Hardware revenues for fiscal 2005, compared to fiscal 2004, decreased as a result of the Company's focus on software and services activities. Software revenue for fiscal 2005, compared to fiscal 2004, decreased as the volume of small EIS transactions declined in the first half of the year due to changes in the sales force. Also, there was a $212,000 reduction of sales of run time licenses associated with the decrease in sales of hardware reference designs. The Company expects an increase in licensing revenue derived from enterprise interoperability licensing and from licensing associated with intellectual property provided in association with engineering services engagements in the future. The increase in fiscal 2005 in service revenue, compared to fiscal 2004, is attributed to the success of the sales reorganization, the focus on mobility opportunities, two large service contracts with major customers, and new significant strategic customers.

The weakening US dollar decreased revenue in fiscal 2005 by approximately 8%, or $1,060,000, relative to what the Canadian dollar revenues would have been had the US currency's value remained unchanged relative to the Canadian dollar in fiscal 2004. The Company implemented a hedging program during the second quarter of fiscal 2005 to hedge against foreign exchange risk and as a result approximately 60% to 80% of its net monthly US dollar inflows are now hedged against the Canadian dollar. The Company's British pound exposure is naturally hedged by its UK operating costs.

There were three significant customers that accounted for 38% of revenue (15%,13% and 10%, respectively) in the fourth quarter of fiscal 2005 and 43% (14%,11% and 18%, respectively) of fiscal 2005 revenue. In the fourth quarter of fiscal 2004, there were three significant customers that accounted for 32% (23%, 7% and 2%, respectively) of revenue and 37% (21%, 6% and 10%, respectively) of fiscal 2004 revenue.

Fourth Quarter
Fiscal 2005

Comparison of Fourth Quarter Fiscal 2005 and Fourth Quarter Fiscal 2004

	Q4 F2005	**% Rev**	**Total Q4 2004**	**%Total Rev**	**Change**	**%**
Hardware Revenue	$737,934	13.63%	$721,176	18.80%	$16,758	2.32%
Software Revenue	$1,064,410	19.67%	$664,056	17.31%	$400,354	60.29%
Services Revenue	$3,610,244	66.70%	$2,450,415	63.89%	$1,159,829	47.33%
Total Revenue	$5,412,588	100.00%	$3,835,647	100.00%	$1,576,941	41.11%

In the fourth quarter of fiscal 2005 software services revenue increased due to two large sales in EIS, approximately $483,000. The increase in service revenue is attributable to the success of the sales reorganization and the focus on mobility opportunities. There was $444,000 of unbilled revenue included in the fourth quarter revenue and reflected in the August 31, 2005 accounts receivable balance.

Revenue was also impacted by foreign exchange. The weakening US dollar decreased revenue in the fourth quarter of fiscal 2005 by approximately 8%, or $360,000, relative to what the Canadian dollar revenues would have been had the currency's value remained unchanged relative to the Canadian dollar value in the fourth quarter of fiscal 2004.

Comparison of Fourth Quarter Fiscal 2005 and Third Quarter Fiscal 2005

	Q4 F2005	**% Total Rev**	**Q3 F2005**	**%Total Rev**	**Change**	**%**
Hardware Revenue	$737,934	13.63%	$368,161	8.61%	$369,773	100.44%
Software Revenue	$1,064,410	19.67%	$617,183	14.43%	$447,227	72.46%
Services Revenue	$3,610,244	66.70%	$3,290,371	76.95%	$319,873	9.72%
Total Revenue	$5,412,588	100.00%	$4,275,715	100.00%	$1,136,873	26.59%

The increase in hardware revenue in the fourth quarter of fiscal 2005, compared to the third quarter of 2005, is attributed to a $278,000 sale to one customer. The increase in software revenue in the fourth quarter of fiscal 2005, compared to the third quarter of fiscal 2005, is the result of a sales program put in place in EIS to pursue large customers and transactions and increase revenues from existing customers. Two large sales amounting to $483,000 were completed in the quarter as a result of the program. This program may result in additional similar transactions in the future. The increase in services revenue is due to a large new strategic customer and a significant new project with a long term strategic customer.

Gross Margins

Gross margins on licensing revenue of approximately 95% are significantly higher than the gross margins obtained on services revenue of 35% to 40%. As a result, the overall gross margin was a blend of these margins that is weighted towards the services margin.

Fiscal 2005

Comparison of Fiscal 2005 and Fiscal 2004

	YTD F2005	YTD F2004	Change	%
Gross Margin	$8,458,106	$6,767,984	$1,690,122	24.97%
Gross Margin %	48.22%	44.60%	-	-

The improvement in margins in fiscal 2005, compared to fiscal 2004, is mainly due to improved margins on engineering services contracts as a result of improving market conditions and improved utilization of engineering resources.

Fourth Quarter Fiscal 2005

Comparison of Fourth Quarter Fiscal 2005 and Fourth Quarter Fiscal 2004

	Q4 F2005	Q4 F2004	Change	%
Gross Margin	$2,751,235	$1,950,244	$800,991	41.07%
Gross Margin %	50.83%	50.85%	-	-

The gross margin percentage in the fourth quarter of fiscal 2005, compared to the fourth quarter of fiscal 2004, remained constant. The increase in gross margin is due to the higher sales activity as discussed above.

Fourth Quarter Fiscal 2005

Comparison of Fourth Quarter Fiscal 2005 and Third Quarter Fiscal 2005

	Q4 F2005	Q3 F2005	Change	%
Gross Margin	$2,751,235	$1,954,972	$796,263	40.73%
Gross Margin %	50.83%	45.72%	-	-

The increase in gross margin in the fourth quarter of fiscal 2005, compared to the third quarter of fiscal 2005, is due to the inefficiencies in the third quarter associated with ramping up new staff hired to support growth in the fourth quarter and beyond.

Marketing & Sales Expenses

Fiscal 2005

Comparison of Fiscal 2005 and Fiscal 2004

	YTD F2005	YTD F2004	Change	%
Marketing & Sales	$3,008,441	$3,045,099	$36,658	1.20%

The reduction in marketing and sales costs in fiscal 2005, compared to fiscal 2004, is mainly due to the classification of costs in finance and administration that were previously classified in marketing and sales due to changes in roles and responsibilities. This reduction in costs was partially offset by increased costs related to the usage of consultants for website design and re-branding of the Company's corporate image.

Fourth Quarter Fiscal 2005

Comparison of Fourth Quarter Fiscal 2005 and Fourth Quarter Fiscal 2004

	Q4 F2005	Q4 F2004	Change	%
Marketing & Sales	$737,677	$849,863	$112,186	13.20%

The reduction in costs for marketing and sales in the fourth quarter of fiscal 2005, versus the fourth quarter of fiscal 2004, is attributed to a reduction in headcount and reclassification of employees and related costs. Employees have left the Company and their positions have been eliminated throughout the year. Some employees, who in fiscal 2004 were included in marketing and sales, have been classified to finance and administration in fiscal 2005 due to changes in their roles and responsibilities.

Comparison of Fourth Quarter Fiscal 2005 and Third Quarter Fiscal 2005

	Q4 F2005	Q3 F2005	Change	%
Marketing & Sales	$737,677	$757,428	$19,751	2.61%

The reduction in costs for marketing and sales in the fourth quarter of fiscal 2005, versus the third quarter of fiscal 2005, is attributed to a reduction in consulting costs as projects were completed in the third quarter.

Research & Development

Fiscal 2005

Comparison of Fiscal 2005 and Fiscal 2004

	YTD F2005	YTD F2004	Change	%
R & D-Mobile Software Products	$3,050,093	$0	($3,050,093)	-
Other R&D	$992,686	$1,681,003	$688,317	40.95%
Total R&D	$4,042,779	$1,681,003	($2,361,776)	(140.50%)

The increase in research and development spending in fiscal 2005, compared to fiscal 2004, is due to development of mobile software products at the Bellevue, Washington State facility. This increase was offset by a reduction in research and development spending on the Company's hardware and interoperability software products. Selected members of the Vancouver research and development team are now also working on the development of mobile software products and are no longer working on the Company's hardware and interoperability software products. The level of spending on hardware and interoperability products continues to be sufficient to maintain the marketability of current offerings and growing related revenues in the future.

Fourth Quarter Fiscal 2005

Comparison of Fourth Quarter Fiscal 2005 and Fourth Quarter Fiscal 2004

	Q4 F2005	Q4 F2004	Change	%
R&D-Mobile Software Products	$1,375,266	$0	($1,375,266)	-
Other R&D	$209,463	$333,833	$124,370	37.26%
Total R&D	$1,584,729	$333,833	($1,250,896)	(374.71%)

The research and development spending increase in the fourth quarter of fiscal 2005, compared to the fourth quarter of fiscal 2004, is due to the development of its mobile software products at the Bellevue, Washington State facility. Reductions in other research and development spending are discussed above.

Fourth Quarter Fiscal 2005

Comparison of Fourth Quarter Fiscal 2005 and Third Quarter Fiscal 2005

	Q4 F2005	Q3 F2005	Change	%
R&D-Mobile Software Products	$1,375,266	$879,901	($495,365)	(56.30%)
Other R&D	$209,463	$204,914	($4,549)	(2.22%)
Total R&D	$1,584,729	$1,084,815	($499,914)	(46.08%)

The research and development spending increase in the fourth quarter of fiscal 2005, compared to the third quarter of fiscal 2005, is due to higher salaries and benefits costs resulting from increased staffing in the Bellevue facility.

Administration Expense

Fiscal 2005

Comparison of Fiscal 2005 and Fiscal 2004

	YTD F2005	YTD F2004	Change	%
Administration Expense	$4,185,208	$3,178,235	($1,006,973)	(31.68%)

Fiscal 2005 administrative costs increased, versus fiscal 2004, due to the hiring of new personnel and the classification of costs for certain management staff in administration that

had previously been classified in marketing and sales as a result of changes to roles and responsibilities. New employee salaries and salaries with the new classification totaled approximately $1,384,000. These costs were partially offset by a $50,000 reduction in rental expense resulting from a renegotiated lease for the Vancouver, British Columbia office, a $55,000 reduction in severance payments which transpired in the second quarter of fiscal 2004, a $55,000 reduction in insurance expense as discussed below and a $323,000 reduction in bad debts expense resulting from reversals of allowances for uncollectible accounts which had previously been considered uncollectible. The Company successfully collected these outstanding receivables.

Fourth Quarter Fiscal 2005

Comparison of Fourth Quarter Fiscal 2005 and Fourth Quarter Fiscal 2004

	Q4 F2005	Q4 F2004	Change	%
Administration Expense	$1,005,849	$929,936	($75,913)	(8.16%)

In the fourth quarter of fiscal 2005, compared to the fourth quarter of fiscal 2004, administrative spending increased due to increased salary and compensation costs as a result of the realignment of the leadership of the Company's European operation in the second quarter of fiscal 2005 and additions to the Vancouver finance team and investor relations team in the first and second quarter of fiscal 2005. Adjustments to the roles and responsibilities of certain management staff and classification of their salaries in administration instead of marketing and sales, as discussed above, has also contributed to this increase. Changes in the European leadership group and in the roles and responsibilities of corporate sales management are directly related to the Company's new focus and direction as a software product and solution provider in the consumer and enterprise mobility and wireless markets.

Comparison of Fourth Quarter Fiscal 2005 and Third Quarter Fiscal 2005

	Q4 F2005	Q3 F2004	Change	%
Administration Expense	$1,005,849	$1,110,831	$104,982	9.45%

In the fourth quarter of fiscal 2005, compared to the third quarter of fiscal 2005, administrative expenses dropped by $55,000 as a result of the Company successfully renegotiating its insurance policies at significantly lower rates. Bad debts expense declined by $66,000 as the Company reversed allowances for bad debts on successful collection of outstanding receivables that had previously been considered uncollectible. These decreases were partially offset by small unfavorable variances in miscellaneous expenses.

Summary of Quarterly Results

$ Millions	Q4 F2005	Q3 F2005	Q2 F2005	Q1 F2005	Q4 F2004	Q3 F2004	Q2 F2004	Q1 F2004
Revenue	5.4	4.3	4.2	3.7	3.8	4.0	3.8	$3.5
Net Loss	($1.50)	($1.3)	($0.8)	($1.4)	($1.6)	($0.4)	($0.2)	($1.0)
Loss Per Share	($0.03)	($0.02)	($0.01)	($0.03)	($0.04)	($0.01)	($0.01)	($0.02)

Due to the nature of product and customer mix as well as the ongoing volatility within the technology and telecommunications sector, both revenue and the net loss of the Company have experienced significant fluctuations over the past 8 quarters. The Company continues to develop products and solutions that have helped it remain competitive in a challenging sector. There has been no evidence of a seasonality or specific industry trend with respect to operations. Financial results cannot be predicted with any certainty.

Liquidity & Capital Resources

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at August 31, 2005, Intrinsyc had cash and cash equivalents and short term investments totaling $7.3 million, with working capital[1] of $7.8 million as compared to cash and cash equivalents of $4.6 million and working capital of $6.8 million as at August 31, 2004. Of the $ 7.3 million the Company had in cash and cash equivalents as at August 31, 2005 $5.0 million is held in a short term deposit, which can be immediately converted to cash without penalty.

At August 31, 2005, the Company estimates that a Canadian $0.01 increase in the exchange rate of the Canadian dollar, relative to the U.S. dollar, would result in an approximate reduction of $34,000 on earnings before income tax for the quarter, and $103,000 for the twelve months ended August 31, 2005.

Cash provided by (used in)	YTD F2005	YTD F2004	Change
Operating Activities	($1,669,123)	($857,043)	($812,080)
Investing Activities	($737,191)	($1,486,782)	$749,591
Financing Activities	$5,124,064	$23,500	$5,100,564
Increase (Decrease) in Cash and Cash Equivalents	$2,717,750	($2,320,325)	$5,038,075

For fiscal 2005, operating activities consumed approximately $812,000 more in cash compared to fiscal 2004 largely as a result of the expenditure on the development of mobile software products primarily at its Bellevue, Washington location. Fiscal 2005 also included receipt of $985,000 that was owed by Technology Partnerships Canada. Cash used in investing activities was higher in fiscal 2004 due to a loan note redemption of $862,950 related to the IEL acquisition. The increase in cash provided by financing activities was the result of the rights offering. The rights offering was completed in the first quarter of fiscal 2005 and was fully subscribed. The rights were exercised, resulting in the issuance of a total of 11,246,743 common shares on October 28, 2004, with gross proceeds amounting to $5,632,671 at $0.50 per common share. Net proceeds amounted to $5,124,064.

Cash provided by (used in)	Q4 F2005	Q4 F2004	Change
Operating Activities	$40,227	($1,457,732)	$1,497,959
Investing Activities	$4,687,451	($92,108)	$4,779,559
Increase (Decrease) in Cash and Cash Equivalents	$4,727,678	($1,549,840)	$6,277,518

Cash used in operating activities decreased by approximately $1.5 million in the fourth quarter of fiscal 2005 as compared to the fourth quarter of fiscal 2004. The loss in the fourth quarter of fiscal 2005 was approximately $38,000 less than the loss in the same quarter of fiscal 2004. In addition, a collections program initiated in the fourth quarter successfully reduced outstanding receivables by approximately $803,000. The remaining difference is attributed to increases in operating liabilities. Specifically, the combined impact of increases in taxes payable, accounts payable and accrued liabilities, and deferred revenue further reduced the cash used in operating activities by approximately $617,000. The cash from investing activities decreased as excess cash that was considered to be a short term investment in prior quarters, per Generally Accepted Accounting Principles, was reclassified to cash and cash equivalents as the financial instrument became more liquid.

Subsequent to the Company's reporting period the Company successfully completed an $8.0 million financing with Wellington Financial Fund II. Wellington Financial LP is a privately

(1) Working Capital is a non-GAAP measure that does not have a standardized meaning and may not be comparable to similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. Working capital is defined as current assets less current liabilities.

held, $83-million specialty finance bridge lending, term and venture debt firm, providing debt financing for private and public companies in its chosen fields.

The financing is by way of secured debentures maturing on October 3, 2007. The maturity date may be extended by one year if the Company meets certain pre-determined financial targets and may also accelerate in certain circumstances including a default by the Company or in the event of a change of control of the Company. The Company has the right to repay the debentures in whole or in part, subject to certain restrictions. The debentures have an annual interest rate of 12.5% with monthly payments of interest only until maturity, and are secured by a charge over all of the assets of Intrinsyc and its subsidiaries. The net proceeds from the financing, of approximately $7.0 million after deducting fees and expenses relating to the financing, will be used primarily to fund the development of the Company's Windows CE-based mobile phone operating system, as well as for general working capital. As part of the financing, Intrinsyc has agreed to appoint a representative of Wellington Financial LP, to the Company's Board of Directors.

Concurrent with the financing, the Company has issued to Wellington Financial an aggregate of 3,870,968 special warrants. Each special warrant is exercisable, without payment of additional consideration, for one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of Intrinsyc at an exercise price of $0.62 per share at any time prior to October 3, 2010.

The Company continues to have no other long-term liabilities, bank debt, off-balance sheet financing arrangements or significant capital leases. During the second quarter of fiscal 2005, the Company renegotiated the lease for its Vancouver office premises, and in the third quarter of fiscal 2005 the lease was further amended. The Company also entered into a lease for its Bellevue, Washington State facility in the second quarter of fiscal 2005. Minimum lease payments are as follows:

Contractual Obligations $Millions	Total	F2006	F2007	F2008	F2009	F2010
Operating Lease Obligations	$4.31	$1.14	$0.94	$0.79	$0.72	$0.72

As discussed previously, the TPC audit is complete and the Company is currently negotiating an extension of its TPC agreement which expired in March, 2004. The outcome of these negotiations is not known or determinable at this time, accordingly no provision has been made. If the extension is granted by TPC the Company will be required to pay approximately $387,000 and the original terms and conditions will be amended. If the Company is found to be in default of its agreement with TPC, TPC can suspend or terminate any obligation and it can demand repayment of all or part of the contributions disbursed to the Company. To date the Company has received approximately $3.8 million in contributions and paid approximately $5,000 in royalties.

As at November 3, 2005, the Company had 56,233,718 common shares outstanding, 4,732,973 share options outstanding and 100,000 outstanding warrants.

On an ongoing basis the Company will continue to investigate various financing options, including additional financings, to fund any new development strategies or material operating shortfalls. These options may, or may not, transpire depending on the availability of funds under acceptable terms and conditions as well as the requirements that may, or may not, arise due to operating activities.

Critical Accounting Policies & Estimates

Intrinsyc prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of consolidated financial statements in conformity with GAAP 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. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions. Significant estimates include, but are not limited to, the determination of project expenditures for contracts accounted for on the percentage of completion basis, allowance for doubtful accounts, income tax valuation allowances, goodwill impairment tests, the useful lives and valuation of intangible assets, and stock-based compensation. The Company's significant accounting policies are described in Note 2 to the August 31, 2005 consolidated financial statements.

Revenue Recognition

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

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

Derivative Financial Instruments

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. Derivatives that are not subject to hedge accounting are recorded on the balance sheet with the changes in fair value being recorded in the statement of earnings each period. For the fourth quarter ended August 31, 2005, all derivative financial instruments met the criteria for hedge accounting.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be impaired. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year 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 when a change in tax rates is substantively enacted. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

Stock-based Compensation

Effective September 1, 2004, the Company adopted, on a retroactive basis, the new provision of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which requires companies to adopt the fair value based method for all stock-based awards. In accordance with the provisions of this section, the Company has accounted retroactively for all director, officer and employee ("employee") stock options granted, settled, or modified since September 1, 2002 using the fair value method. The fair value method requires the Company to expense the fair value of the employee options granted and vested, or modified during a period. The Black-Scholes model was used to determine fair value.

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued to employees as options were issued at the market value of the shares at the date of the grant. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options was recorded as share capital. The Company has previously disclosed the pro-forma effect of accounting for these awards under the fair value based method.

This change in accounting policy has been applied retroactively, and the amounts presented in the financial statements for prior periods have been restated for this change.

Foreign Exchange Forward Contracts

The Company uses foreign exchange forward contracts to hedge transactions denominated in United States dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements, most significantly in the United States. As at August 31, 2005 the Company had no outstanding forward exchange contracts to sell United States dollars.

Risks & Uncertainties

Intrinsyc faces the risks normally associated with high growth technology companies in dynamic and changing markets.

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's revenue will continue to grow. As at August 31, 2005, the Company had a deficit of approximately $36 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results and the results of product development and sales and marketing initiatives. There can be no assurance that implementation of the Company's strategies will result in the Company becoming profitable.

Dependence on Market Acceptance of Mobile Devices and Interoperability Solutions

The market for mobile device and interoperability software and services is emerging and the potential size of this market and the timing of its development are not well known. As a result, the Company's profit potential is uncertain and the Company's revenue may not grow as fast as the Company anticipates, if at all. The Company is dependent upon the broad acceptance by businesses and consumers of a wide variety of mobile devices as well as supporting applications, which will depend on many factors, including:

- the development of content and applications for mobile devices;
- the willingness of large numbers of businesses and consumers to use mobile devices such as smartphones, PDAs, wireless gaming consoles, and other such specialized mobile devices such as handheld medical devices and industrial data collectors to perform functions currently carried out manually or by traditional PCs, including inputting and sharing data, communicating among users and connecting to the Internet; and
- the evolution of industry standards that facilitate the distribution of content over the Internet to these devices via wired and wireless telecommunications systems, satellite or cable.

Product Development and Technological Change

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Company will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and technological innovations by others. There can be no assurance that the Company will be successful in doing this in a timely manner or at all.

The software industry is characterized by a continuous flow of improved products which render existing products obsolete. There can be no assurance that products or technologies developed by others will not render the Company's products obsolete or non-competitive.

Lengthy Sales Cycle

The typical sales cycle of the Company's integrated solutions is lengthy (generally between 6 and 24 months), unpredictable, and involves significant investment decisions by prospective customers, as well as education of those customers regarding the use and the benefits of the Company's products and services. The purchase of the Company's products and services is often delayed while prospective customers conduct lengthy internal reviews and obtain capital expenditure approvals. Even after deciding to purchase the Company's

products or services, the Company's customers tend, in some cases, to deploy the products slowly and deliberately depending on a variety of factors, including the skill level of the customer and the status of its own technology with which the Company's products are to integrate. As a result, the Company's quarterly financial results may vary significantly.

Major Industry Software Vendor Partners May Become Competitors

As the developer of Windows CE, Microsoft .NET and Symbian based software technologies, all of which the Company is reliant upon, Microsoft Company and Symbian Limited could add features to their operating systems and application product offerings that directly compete with the software products and services the Company provides. The ability of the Company's customers or potential customers to obtain software products and services directly from Microsoft Company and Symbian Limited that compete with the Company's software products and services could harm the Company's business.

Competition

Because of intense market competition, the Company may not succeed. A number of the Company's current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than the Company. Current and potential competitors may also have existing relationships with many of the Company's prospective customers, and prospective OEM customers may be developing products for their own use that are comparable to the Company's products. In addition, the Company expects competition to persist and intensify in the future, which could adversely affect the Company's ability to increase sales.

Additional Financing

The Company currently operates at a loss and uses cash raised in equity and debt markets to fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering will result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests.

Third Party Manufacturing

The Company depends on third party manufacturing facilities to manufacture its reference design products, which reduces the Company's control over the manufacturing process and exposes the Company to a number of risks, including:

- reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- lack of guaranteed production capacity or product supply; and
- reliance on third-party manufacturers to maintain competitive manufacturing technologies.

The Company does not typically have supply agreements with its manufacturers and instead obtains manufacturing services on a purchase-order basis. The Company's manufacturers typically have no obligation to supply the Company with any specific product, in any specific quantity or at any specific price. If the Company's manufacturers were to become unable or unwilling to continue to manufacture its products in required volumes, at acceptable quality, yields and costs, or in a timely manner, the Company's business might be harmed to the degree that its revenues are dependent on the sale of these reference designs. As a result, the Company would have to attempt to identify and qualify substitute manufacturers for its current manufacturers, which could be time consuming and difficult, and might result in unforeseen manufacturing and operations problems.

Component Suppliers

Although the Company out-sources its reference design manufacturing, it is responsible for procuring certain raw materials for its products directly. The Company's reference design products incorporate components or technologies that are only available from single or limited sources of supply. In particular, some of the Company's integrated circuits are available from a single source. In the past, certain integrated circuits used by the Company in its products have been phased out of production. When this happens, the Company attempts to purchase sufficient inventory to meet its needs until a substitute component can be incorporated into the Company's products. Nonetheless, the Company might be unable to purchase sufficient inventory to meet its demands, or the Company might incorrectly forecast its demands and purchase too many or too few components. Further, the Company's products use components that have in the past been subject to market shortages and substantial price fluctuations. From time to time, the Company has been unable to meet its orders because it was unable to purchase necessary components for its products. If the Company is unable to meet existing orders or to enter into new orders because of a shortage in components, it may lose net revenues and risk losing customers and harming its reputation in the marketplace.

Acquisitions

The Company has, and from time to time in the future may, acquire businesses, products or technologies that it believes compliment or expand its existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of the acquired business will not be profitable or that the attention of the Company's management will be diverted from the day-to-day operation of its business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Any acquisition could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that any acquisitions will be successfully completed or that, if one or more acquisitions are completed, the acquired businesses, products or technologies will generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Sales and Marketing and Strategic Alliances

If the Company is to become successful, it must continue to expand its sales and distribution channels and its marketing and technology alliances. There is no assurance the Company will be able to reach agreements with additional alliance or distribution partners on a timely basis or at all, or that these partners will devote sufficient resources to advancing the Company's interests.

The Company's strategic alliances with operating system vendors, semiconductor manufacturers and systems integrators are a key part of the Company's overall business strategy. The Company cannot, however, be certain that it will be successful in developing new strategic relationships or that the Company's strategic partners will view such relationships as significant to their own business or that they will continue their commitment to the Company in the future. The Company's business, results of operation, financial condition and stock price may be materially adversely affected if any strategic partner discontinues its relationship with the Company for any reason. Additionally, the Company relies on the voluntary efforts of its strategic partners rather than compliance with contractual obligations,

and there are no minimum performance requirements. Therefore, the Company cannot be certain that these relationships will be successful.

Management of Growth

The Company's growth continues to place significant demands on its management and other resources. The Company's future results of operations will depend in part on the ability of its officers and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel.

Dependence on Management

The Company's future success depends on the ability of the Company's management to operate effectively, both individually and as a group. If the Company were to lose the services of any management employees, the Company may encounter difficulties finding qualified replacement personnel and integrating them into the management group.

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on anticipated revenues and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Research and Development Expenditures

If the Company fails to develop new products, or if the products the Company develops are not successful, the Company's business could be harmed. Even if the Company does develop new products which are accepted by its target markets, the Company cannot assure that the revenue from these products will be sufficient to justify the Company's investment in research and development.

International Expansion of Business Operations

The Company plans to increase international operations in the current fiscal year. International sales and the related infrastructure support operations carry certain risks and costs such as the administrative complexities and expenses of administering a business abroad; complications in both compliance with and also unexpected changes in regulatory requirements, foreign laws, international import and export legislation, trading policies, tariffs and other barriers; potentially adverse tax consequences; and uncertainties of law and enforcement relating to the protection of intellectual property and unauthorized duplication of software. There can be no assurance that these factors will not be experienced in the future by the Company or that they will not have a material adverse impact on the Company's business, results of operations and financial conditions.

Foreign Exchange Risk

A substantial portion of the Company's sales are denominated in United States dollars and are made to United States-based customers. Because the Company's operations are based in Canada and the United Kingdom, the Company is exposed to risks associated with fluctuations in the exchange rate between the United States dollar, the British Pound and the Canadian dollar. If the Canadian dollar or British Pound rise relative to the United States dollar, the Company's operating results may be adversely impacted. The Company has now implemented a foreign exchange hedging program that effectively hedges approximately 60% - 80% of its net monthly US dollar receipts.

Intellectual Property Protection

The Company's ability to compete may be affected by its ability to protect its intellectual property. It relies primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect its intellectual property. While the Company believes that its products and technologies are adequately protected against infringement, there can be no assurance of effective protection. Monitoring and identifying unauthorized use of the Company's technology is difficult, and the prohibitive cost of litigation may impair the Company's ability to prosecute any infringement. The commercial success of the Company will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being made against the Company. The Company believes that it is not infringing any intellectual property rights of third parties, but there can be no assurance that such infringement will not occur. An infringement claim against the Company by a third party, even if it is invalid, could have a material adverse effect on the Company because of the cost of defending against such a claim.

Product Liability

The Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims. There can be no assurance that such provisions will protect the Company from such claims. The Company does not maintain product liability insurance. A successful product liability claim brought against the Company could have a material adverse effect upon the Company's business, results of operations and prospects.

Stock Price Volatility

The market price for the common shares of the Company fluctuates significantly, and these fluctuations tend to be exaggerated if the trading volume is low. The market price of the common shares may rise or fall in response to announcements of technological or competitive developments, acquisitions or strategic alliances by the Company or its competitors, and the gain or loss by the Company of significant orders or broad market fluctuations.

Shareholders' Rights Plan

The Company has implemented a Shareholders' Rights Plan. The Shareholders' Rights Plan provides for substantial dilution to an acquirer making a take-over bid for the common shares of the Company unless the bid meets the requirements described in the Shareholders' Rights Plan. This could discourage a potential acquirer from making a take-over bid and make it more difficult for a third party to acquire control of the Company.

Ability to Meet the Obligations of Outstanding Debentures

The Corporation has outstanding secured debentures in the amount of $8.0 million maturing on October 3, 2007. The debentures have an annual interest rate of 12.5% with monthly payments of interest only until maturity, and are secured by a charge over all of the assets of Intrinsyc and its subsidiaries. Under the terms of the debentures, the Corporation must maintain a minimum cash balance of $2 million and tangible net assets in excess of

$500,000. In the event that the Corporation is not able to meets its obligations under the debenture, the debenture holder has a right to all of the assets of the Corporation.

Significant Events Subsequent to the Year Ended August 31, 2005

On October 4, 2005 the Company completed an $8.0 million financing with Wellington Financial Fund II. Wellington Financial LP is a privately held, $83-million specialty finance bridge lending, term and venture debt firm, providing debt financing for private and public companies in its chosen fields.

The financing is by way of secured debentures maturing on October 3, 2007. As part of the financing, Intrinsyc has agreed to appoint a representative of Wellington Financial LP, to the Company's Board of Directors.

Concurrent with the financing, the Company has issued to Wellington Financial special warrants. Each special warrant is exercisable, without payment of additional consideration, for one common share purchase warrant.

Outlook

In fiscal 2005, the Company continued to review and re-structure its operations, personnel, markets, customers and strategic vision. The Company has taken significant steps to develop a strong management team, conserve cash, maintain liquidity and ensure the continuing investment in high potential, next generation technologies in the consumer and enterprise mobility and wireless markets.

For fiscal 2006, we believe that the market for mobility software and solutions, specialized devices and connected solutions will continue to evolve and expand. We believe that the current strategic direction of the Company, as well as our suite of partners and alliances, has positioned us well to capitalize on the opportunities we expect this growing market to present. We have reduced our cost structure significantly and have a high degree of confidence in our business model and technology vision.

The Company will continue to invest in technology, people, markets and key partnerships with significant industry participants. The Company intends to provide high value solutions that enable consumers and companies to seamlessly connect and manage devices and applications throughout a wide range of markets and applications.

To the Shareholders of Intrinsyc Software International, Inc.

We have audited the consolidated balance sheets of Intrinsyc Software International, Inc. as at August 31, 2005 and 2004 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 audit(s).

We conducted our audit(s) 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Vancouver, Canada, *October 7, 2005* *Chartered Accountants*

2005

Consolidated FINANCIAL STATEMENTS & AUDITOR'S REPORT

Consolidated Financial Statements

Assets

As at August 31	2005	2004 Restated *[note 21]*
Current		
Cash and cash equivalents *[note 2 and 5]*	$7,318,210	$4,600,460
Accounts receivable *[notes 6 and 18]*	3,909,596	3,381,271
Other receivable *[note 14]*	-	947,374
Inventory	134,318	277,840
Prepaid expenses	345,762	334,780
Total current assets	**11,707,886**	**9,541,725**
Capital assets *[note 8 and 18]*	980,580	838,268
Goodwill *[note 9[a]]*	14,189,478	14,189,478
Intangible assets *[note 9[b]]*	1,212,577	1,442,848
Total Assets	**$28,090,521**	$26,012,319

Liabilities and Shareholders' Equity

	2005	2004
Current		
Accounts payable and accrued liabilities	2,790,071	1,902,038
Taxes Payable	263,382	129,742
Deferred revenue	836,660	645,820
Total current liabilities	**3,890,113**	**2,677,600**
Future income taxes *[note 13]*	261,425	356,033
Total Liabilities	**$4,151,538**	$3,033,633
Commitments and contingencies *[notes 14 and 15]*		
Shareholders' equity		
Share capital *[note 11]*	57,452,141	52,328,077
Share purchase warrants *[note 11]*	163,500	163,500
Contributed surplus *[notes 3 and 12]*	1,896,760	1,080,546
Cumulative translation adjustment	(27,792)	(27,792)
Deficit	(35,545,626)	(30,565,645)
Total shareholders' equity	**23,938,983**	**22,978,686**
Total Liabilities and Shareholders' Equity	**$28,090,521**	$26,012,319

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

Consolidated Statements of Operations and Deficit

Year ended August 31	2005	2004 Restated *[note 21]*
Revenues *[note 18]*	17,539,105	15,175,928
Cost of Sales	9,080,999	8,407,944
	8,458,106	6,767,984
Expenses		
Administration	4,185,208	3,178,235
Marketing and sales	3,008,441	3,045,099
Research and development	4,042,779	1,681,003
Amortization	825,150	1,097,774
Stock-based compensation *[notes 3 and 12]*	816,214	631,342
Restructuring and other costs *[note 19]*	-	623,000
Technology Partnerships Canada Funding Investment *[note 14]*	214,652	(219,053)
	$13,092,444	10,037,400
Loss before other earnings (expense) and income taxes	4,634,338	3,269,416
Other expense (earnings)		
Foreign exchange loss (gain) *[note 16]*	482,657	(35,591)
Interest income	(119,830)	(7,971)
	$362,827	(43,562)
Loss before income taxes	4,997,165	3,225,854
Income tax expense (recovery) *[note 13]*		
Current	77,424	10,329
Future	(94,608)	(144,600)
	(17,184)	(134,271)
Loss for the year	**4,979,981**	**3,091,583**
Deficit, beginning of year	30,565,645	27,474,062
Deficit, end of year	**$35,545,626**	30,565,645
Loss per share (basic and diluted)	**0.09**	0.07
Weighted average Numbers of shares outstanding	**54,477,377**	41,631,629

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended August 31	2005	2004
		Restated [note 21]
Operating Activities		
Loss for the year	(4,979,981)	(3,091,583)
Items not involving cash		
Amortization	825,150	1,097,774
Unrealized foreign exchange loss on contingent consideration	-	119,742
Future income taxes	(94,608)	(144,600)
Stock-based compensation *[note 3]*	816,214	631,342
Changes in non-cash operating working capital		
Income taxes payable	133,640	(53,299)
Funds held in trust *[note 7[b]]*	-	461,438
Accounts receivable	(528,325)	(48,325)
Other receivable	947,374	12,908
Inventory	143,522	352,091
Prepaid expenses	(10,982)	(178,565)
Accounts payable and accrued liabilities	888,033	(201,983)
Deferred revenue	190,840	186,017
Cash used in operating activities	**$(1,669,123)**	(857,043)
Investing Activities		
IEL acquisition costs	-	(102,146)
Loan note *[note 7[a]]*	-	(862,950)
Acquisition of intangible assets	(184,875)	(355,884)
Purchase of capital assets	(552,316)	(165,802)
Cash used in investing activities	**$(737,191)**	(1,486,782)
Financing Activities		
Issuance of common shares for cash		
Issuance of common shares *[note 11]*	5,632,671	23,500
Share issuance costs *[note 11]*	(508,607)	-
Cash provided by financing activities	**$5,124,064**	23,500
Increase (Decrease) in cash and cash equivalents	**2,717,750**	**(2,320,325)**
Cash and cash equivalents, beginning of year	4,600,460	6,920,785
Cash and cash equivalents, end of year	**7,318,210**	4,600,460
Supplementary information		
Interest paid	14,203	92,367
Interest received	132,035	58,837
Income taxes paid (received)	(11,007)	123,277
Non-cash investing	-	-
Additional consideration paid in relation to the acquisition of IEL *[note 7[a]]*	-	2,392,334

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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. Articles of Continuance were filed under the Canada Business Corporations Act on May 1, 2003 to continue the Company federally and change the name of the Company from Intrinsyc Software, Inc. to Intrinsyc Software International, Inc. The Company provides embedded hardware and software and services solutions for creating, networking and managing specialized intelligent devices.

2. Significant Accounting Policies

These consolidated financial statements are presented in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles.

Principles of Consolidation

The accompanying audited consolidated financial statements include the accounts of Intrinsyc Software International, Inc. (the "Company") and its wholly-owned subsidiaries, Intrinsyc Software (USA) Inc., Linar Limited, Intrinsyc Europe Limited, NMI Electronics Limited and Intrinsyc Software (Barbados), Inc. The Company has eliminated all significant inter-company balances and transactions. These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

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 the 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.

Cash Equivalents

Cash equivalents include short-term deposits, which are all deposits rated R1, term deposits, savings investment deposits, guaranteed investment certificate deposits or banker's acceptances, with a term to maturity of three months or less when acquired. Short-term deposits are valued at cost plus interest earned.

Inventory

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

Allowance for doubtful accounts

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be impaired. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts.

Research and development

The Company expenses research and development costs as they are incurred.

Capital assets

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

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

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

Leases

Leases are classified as either capital or operating. Those leases, which transfer substantially all the benefits and risks of ownership of the property to the Company are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate interest rate.

All other leases are accounted for as operating leases wherein rental payments are charged to income as incurred.

Intellectual property and other intangible assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

Intellectual property is recorded at cost. Intellectual property related to software is amortized on a straight-line basis over six years.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired less the liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting unit that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is annually tested for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. The first step is to compare the carrying amount of the reporting unit to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. Management has completed the first step of the goodwill impairment test as of August 31, 2004 and August 31, 2005.

The second step has not been required, but would be carried out if the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit's goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the first paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the earnings statement before extraordinary items and discontinued operations.

Revenue Recognition

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

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

Unbilled Revenue

Unbilled revenue is revenue that has been recognized using the percentage of completion method of accounting less amounts billed to the customer in accordance with the milestone terms of the contract. Unbilled revenue is reduced when customers are invoiced and the respective accounts receivable are recorded.

Derivative Financial Instruments

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. Derivatives that are not subject to hedge accounting are recorded on the balance sheet with the changes in fair value being recorded in the statement of earnings each period. For the year ended August 31, 2005, all derivative financial instruments met the criteria for hedge accounting.

Warranty Costs

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

Share Issue Costs

The Company reduces the value of consideration assigned to shares issued by the costs, net of income tax recoveries, of issuing the shares.

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. As at August 31, 2005, the Company has not recorded any such impairment losses.

Translation of Foreign Currencies

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

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

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

Loss Per Share

The loss per share is calculated by using the weighted average number of common shares outstanding during the period. If in a reporting period the Company has outstanding dilutive equity instruments, the diluted loss per share is calculated using the treasury stock method. Diluted per share amounts have not been disclosed as the effect of outstanding options and warrants is anti-dilutive for all periods presented.

Income Taxes

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

3. Change in Accounting Policy

Effective September 1, 2004, the Company adopted, on a retroactive basis, the new provision of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which requires companies to adopt the fair value based method for all stock-based awards. In accordance with the provisions of this section, the Company has accounted retroactively for all director, officer and employee ("employee") stock options granted, settled, or modified since September 1, 2002 using the fair value method. The fair value method requires the Company to expense the fair value of the employee options granted and vested, or modified during a period.

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued to employees as options were issued at the market value of the shares at the date of the grant. Consideration paid by employees on the exercise of stock options was recorded as share capital. The Company has previously disclosed the pro-forma effect of accounting for these awards under the fair value based method.

In accordance with the requirements of Section 3870, this change in accounting policy has been applied retroactively and the amounts presented for prior periods have been restated for this change. The effect of this change is to increase the loss for the year ended August 31, 2005 and August 31, 2004 by $816,214 and $631,342, respectively. The deficit as at September 1, 2003 was increased by $449,204 reflecting the cumulative effect of the change in accounting policy. The impact of adopting this accounting change on the consolidated financial statements is as follows:

	As previously reported $	Adjustment $	Restated $
As at September 1, 2003:			
Opening Deficit	(27,024,858)	(449,204)	(27,474,062)
Year ended August 31, 2004:			
Net loss	(2,460,241)	(631,342)	(3,091,583)
Contributed surplus [note 11]	-	1,080,546	1,080,546
Net loss per common share:			
Basic and diluted	0.059	0.015	0.074

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Year ended August 31	2005	2004
Expected life in years	2.91	2.62
Risk-free interest rate	2.99%	2.96%
Volatility	171.7%	155.8%
Dividend yield	0.00%	0.00%

Translation of foreign currencies

The Company's reporting currency is the Canadian dollar. From acquisition [note 7[a]], management considered Intrinsyc Europe Ltd. ("IEL") to be a self-sustaining operation and IEL's financial statements were translated to the Canadian dollar using the current rate method. The resulting translation adjustment was recorded directly to the cumulative translation adjustment, a separate component of shareholders' equity. Effective June 1, 2004, the Company changed the status of IEL from a self sustaining operation to an integrated one, as management believed the nature of the subsidiary had changed, and that IEL was an integrated operation within the group. Accordingly, the financials statements of IEL are now converted into Canadian dollars using the temporal method. Monetary assets and liabilities are remeasured into the Canadian dollar at end-of-period exchange rates with non-monetary assets and liabilities remeasured at historical exchange rates. Revenue and expenses are remeasured at average exchange rates in effect during each period, except for those expenses related to non-monetary assets and liabilities, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in net income or loss. The resulting foreign exchange loss for the period from June 1, 2004 to August 31, 2004 recorded in income for fiscal 2004 was $1,358. Exchange gains and losses previously deferred and accumulated in the cumulative translation adjustment continue to be deferred.

Linar Ltd. and Intrinsyc Software (USA), Inc. remain an integrated operations within the group.

Due to the constant change in currency exposures, and the substantial volatility of currency exchange rates, the effect of exchange rate fluctuations upon future operating results could be significant.

4. Operating Line of Credit

In Canada the Company has an operating line of credit for borrowings up to $1,000,000, bearing interest at prime rate. Prime rate was 4.50% at August 31, 2005 [2004 - 3.75%]. The line is collateralized by a $1,050,000 Guaranteed Investment Certificate of Deposit. There were no borrowings outstanding against the operating line of credit as at August 31, 2005 and 2004. The Company also has a US chequing account with an overdraft limit that is collateralized by restricted cash in the amount of $14,800 ($12,500 USD). There were no borrowings outstanding against the overdraft as at August 31, 2005.

5. Cash & Cash Equivalents

	2005 $	2004 $
Cash	2,309,178	4,600,460
Short Term Deposit	5,009,032	-
	7,318,210	4,600,460

6. Accounts Receivable

	2005 $	2004 $
Trade and miscellaneous receivables	3,465,144	3,176,634
Unbilled revenue	444,452	204,637
	3,909,596	3,381,271

7. Acquisitions

Intrinsyc Europe Ltd

On June 26, 2002, the Company acquired all of the outstanding shares of Intrinsyc Europe Ltd. ("IEL") (formerly NMI Electronics Ltd.), a U.K.-based company that is a developer of Windows CE-based products, intelligent device applications and smart phone solutions. The acquisition has been accounted for using the purchase method of accounting and the results of operations have been consolidated since the date of acquisition. The purchase agreement contains provisions for additional consideration subject to the achievement of certain performance targets during each of the 12 month periods ended May 31, 2003 and 2004.

The performance criteria for the 12 month period ended May 31, 2003 were achieved, and consequently, additional consideration of $4,724,461 was due and payable and has been recorded as additional goodwill for the year ended August 31, 2003.

During the quarter ended May 31, 2004, a guaranteed loan note of $2,195,023 (£881,500) and a loan note of $862,950 (£357,833) related to the 12 month period ended May31, 2003 were redeemed (held to guarantee the ability of the Company to meet the guaranteed loan note obligation) including interest of $90,052.

Additional consideration of up to $4,120,182 was previously contingently payable or issuable upon the achievement of certain revenue targets for the 12 months ended May 31, 2004. Based on an amendment to the original agreements, dated May 28, 2004, all contingent and unpaid consideration as at May 28, 2004 have been considered to be extinguished in return for the issuance of 4,105,727 common shares. These shares were issued on July 8, 2004 at a value of $2,791,894 based on the closing price of $0.68 of the Company's shares as at May 31, 2004. This issuance satisfied all amounts payable and completes the transaction in its entirety.

The difference between the value of the shares issued and the amount of contingent and future payable consideration previously accrued, ($2,349,181), amounted to $442,713 which was recorded by the Company as an addition to goodwill during the year ended August 31, 2004. There was also $1,949,621 in accruals recorded during the year ended August 31, 2004 in relation to the contingent consideration. As a result, total goodwill recorded during the year ended August 31, 2004 amounted to $2,392,334 [note 9].

[b] Linar Ltd.

On January 26, 2001, the Company acquired all of the outstanding shares of Linar Ltd., a U.K.-based company which provides Java-based enterprise connectivity software.

Cash payments of up to US$1,000,000 were payable upon the achievement of specified performance criteria by a certain employee until January 26, 2004 and were recorded as an expense in the period the obligation was incurred. The cash was held in trust pursuant to the acquisition agreement to be paid upon the achievement of the criteria. The final payment of US$333,000 ($461,438), was paid on January 26, 2004 since the performance criteria were achieved.

Warrants to purchase 25,000 common shares of the Company were issued during the three month period ended November 30, 2003 with an exercise price equal to fair market value on January 26, 2003 based on specified criteria having been met [note 11].

[c] Consequent Technologies, Inc.

On September 9, 2003, the Company acquired from Consequent Technologies Inc. all of its capital assets, a strategic alliance agreement with Neoteric, Inc. and a non-competition agreement with an employee in return for a cash payment of $330,000. The Company recorded the acquisition of these assets in excess of the fair market value of identifiable assets as intangible assets.

	$
Fair market value of identifiable capital assets	55,920
Intangible assets [note 9[b]]	274,080
Total purchase price	330,000

8. Capital Assets

	Cost $	Accumulate amortization $	Net book Value $
2005			
Computers and equipment	1,984,900	1,359,523	625,377
Computer software	893,746	766,846	126,900
Furniture and fixtures	826,758	626,296	200,462
Leasehold improvements	332,244	304,403	27,841
	4,037,648	3,057,068	980,580
2004			
Computers and equipment	1,677,234	1,189,976	487,258
Computer software	764,029	656,253	107,776
Furniture and fixtures	748,807	584,150	164,657
Leasehold improvements	295,262	216,685	78,577
	3,485,332	2,647,064	838,268

The aggregate amortization expense for the year ended August 31, 2005 was $410,004 [2004 - $515,952].

9. Goodwill & Other Intangible Assets

A. The changes in the carrying amount of goodwill for the years ended August 31, 2004 and August 31, 2005 is as follows:

	$
Balance, August 31, 2003	11,671,498
Goodwill related to contingent consideration [note 7[c]]	2,392,334
Other goodwill additions	125,646
Balance, August 31, 2004 and 2005	**14,189,478**

There were no changes to the goodwill balance during the year ended August 31, 2005.

B. Other intangible assets as at August 31, 2005 and 2004 were as follows:

	Cost $	Accumulate amortization $	Net book Value $
2005			
Intellectual property	3,333,679	2,198,550	1,138,129
Other intangible assets [note 7[c]]	274,080	199,632	74,448
	3,610,759	2,398,182	1,212,577
2005			
Intellectual property	3,151,804	1,883,220	1,268,584
Other intangible assets [note 7[c]]	274,080	99,816	174,264
	3,425,884	1,983,036	1,442,848

The aggregate amortization expense for the year ended August 31, 2005 was $415,146 [2004 - $581,822].

10. Employee Pension Contributions

	2005 $	2004 $
Benefit costs	339,477	103,225

The Company matches employees' pension contributions to registered pension plans each year as part of the employee benefits plan. The funds are transferred to the individual employees' pension plans once a year. The expense is accrued throughout the year.

11. Share Capital

Authorized

Unlimited number of common shares without par value; and Unlimited number of preference shares without par value.

Issued

	Number of common shares	$
Outstanding, August 31, 2003	40,856,248	49,512,683
Shares issued on exercise of warrants	25,000	23,500
Shares issued in connection with the acquisition of IEL [note 7[a]]	4,105,727	2,791,894
Outstanding, August 31, 2004	**44,986,975**	**52,328,077**
Shares issued in connection with October 2004 rights offering	11,246,743	5,632,671
Shares issue costs	-	(508,607)
Outstanding, August 31, 2005	**56,233,718**	**57,452,141**

The Company completed a rights offering for common shares on October 28, 2004 which was fully subscribed. The rights were exercised, resulting in the issuance of a total of 11,246,743 common shares on October 28, 2004, with gross proceeds amounting to $5,632,671 at $0.50 per common share. Net proceeds amounted to $5,124,064.

Share option plan

Under the terms of the Company's employee share option plan, the Board of Directors may grant options to employees, officers and directors. The plan provides for the granting of options at the closing price of the Company's stock prior to the grant date. Options granted on or after May 11, 1999 and before April 5, 2001 generally vest over three years with the first 1/3 vesting at the first 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 11,095,774 options for issuance under its employee share option plan a total of 4,095,774 options have been exercised to date leaving a total of 7,000,000 options available for issuance of which 4,732,973 have been granted and are outstanding as at August 31, 2005.

A summary of the Company's share option activity for the years ended August 31, 2005 and 2004, is as follows:

Outstanding options

	Number of common shares	Weighted average exercise price $
Outstanding, August 31, 2003	4,939,007	1.81
Options granted	1,607,840	1.09
Options cancelled	(1,851,941)	1.80
Outstanding, August 31, 2004	**4,694,906**	**1.57**
Options granted	2,008,860	0.68
Options cancelled	(1,970,793)	1.99
Outstanding, August 31, 2005	**4,732,973**	**1.02**

The following table summarizes the share options outstanding at August 31, 2005:

Options Outstanding				Options Exercisable	
Range of exercise price $	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
0.49 - 1.20	4,080,151	3.49	0.87	1,531,605	1.05
1.32 - 2.00	498,157	2.04	1.61	394,175	1.68
3.15 - 3.21	154,665	0.91	3.19	154,665	3.19
	4,732,973	3.30	1.02	2,080,445	1.33

Share purchase warrants

A summary of the Company's share purchase warrants for the years ended August 31, 2005 and 2004 is as follows:

Outstanding Warrants	Number of warrants	Weighted average Warrant Price $
Outstanding, August 31, 2003	100,000	3.20
Warrants issued	25,000	0.94
Warrants exercised	(25,000)	0.94
Outstanding, August 31, 2004 and 2005	100,000	3.20

During the year ended August 31, 2004, 25,000 common share purchase warrants were issued at a purchase price $0.94 with an expiry date of January 26, 2008, as part of the January 26, 2001 Linar acquisition [note 7[b]]. These warrants were exercised during the year ended August 31, 2004.

There was no share purchase warrant activity during the year ended August 31, 2005. As at August 31, 2005, 100,000 common share purchase warrants were outstanding with an average exercise price of $3.20 expiring January 26, 2008.

12. Contributed Surplus

	2005 $	2004 $
		Restated *[note 3]*
Contributed Surplus - Beginning of Year	1,080,546	449,204
Stock Based Compensation Expense [note 3]	816,214	631,342
Contributed Surplus - End of Year	1,896,760	1,080,546

13. Income Taxes

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 35.6% [2004 - 36.3%] to loss before income taxes due to the following:

	2005 $	2004 $
Combined Canadian federal and provincial income taxes at expected rate	(1,778,423)	(1,170,985)
Change in valuation allowance	(4,134,217)	(129,000)
Permanent and other differences	401,751	1,088,714
Income recognized for tax, not for accounting purposes	5,400,534	-
Foreign income taxed at other rates	93,171	83,000
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	-	(6,000)
	(17,184)	(134,271)

The change in valuation allowance incorporates the use of previously unrecognized losses of $3,912,487, which yields a current period tax expense of $3,989,911, before the use of previously unrecognized losses.

The composition of the Company's future tax assets and liabilities as at August 31, 2005 and 2004 is as follows:

	2005 $	2004 $
Future income tax assets:		
Capital assets	888,000	784,000
Loss carry forwards	2,830,000	7,002,000
Share issue costs	204,000	196,000
SR&ED pool	744,000	1,230,000
Other	997,000	585,000
	5,663,000	9,797,000
Valuation allowance	(5,663,000)	(9,797,000)
Future income tax liability: Intellectual property	(261,425)	(356,033)
Net future income tax liability	**261,425**	356,033

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

As at August 31, 2005, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately $7,488,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

	$
2009	1,081,000
2010	5,756,000
2014	651,000
	7,488,000

The Company also has approximately $2,090,000 of scientific research and experimental development expenditures that may be carried forward indefinitely to be deducted against future Canadian taxable income, and federal investment tax credits of approximately $886,000 available to offset future Canadian federal income taxes payable as well as provincial investment tax credits of $154,000. The investment tax credits expire commencing in 2010 until 2013. The benefit of the investment tax credits has not been recognized as the realization is not reasonably assured.

At August 31, 2005, the Company also has non-capital loss carry forwards for UK and US income tax purposes totalling approximately $671,000, that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years.

14. Government Assistance

Under agreements with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company was eligible to receive conditionally repayable research and development funding amounting up to $5,415,648 to support the development of embedded devices and wired and wireless internet-enabled network connectivity. During the year ended August 31, 2004, the Company claimed $603,074, which was recorded as a reduction of expenses. The amount recorded was net of $184,247 representing a 15% commission that was paid to a consultant for services performed in securing the funding. Under the terms of the agreements, an amount up to a maximum of $13,278,000 was to be repaid by royalties on annual sales, in excess of certain revenue thresholds of specified products, commencing in 2003 through to 2011. The TPC funding agreements expired on

March 31, 2004 and all claims up to that date, in the net amount of $3,187,167, were completed and filed.

During the year ended August 31, 2004, the Company was notified that, as part of an ongoing audit of the Company's TPC program, payment of claims totalling $947,374 (recorded as other receivables as at August 31, 2004) would be withheld, as permitted in the funding contract.

As a result of the audits, on August 25, 2004 the Company reached a settlement with the Government of Canada on a specific matter. The Company was found to be in breach of its TPC funding agreement due to improper use of an outside consultant and related commissions. As a result, the Company made a payment of $568,268 to the Government of Canada. This figure represented 15% of amounts claimed from the inception of the funding agreement to April 1, 2004. The Company also settled with the consultant who had provided services related to the TPC filings, accordingly, total commissions of $184,247 that were previously charged against TPC funding (but not paid) to the consultant in the year ended August 31, 2004 were reversed. All claims between the Company and the consultant have been settled and agreed to.

In December 2004, payments totalling $985,063, representing $947,374 previously withheld and an additional $37,689, were received of which $947,374 was applied against the Other Receivable balance. The additional $37,689 of funds received was recorded as Technology Partnerships Canada Funding Investment in the accompanying consolidated statements of operations.

During the year ended August 31, 2005, the Company determined that it had received an overpayment from TPC of $22,063 and accordingly recorded a liability for this amount. In addition, the Company paid royalties of $5,278 during the year ended August 31, 2005 [2004 - $nil] and accrued a further $225,000 in royalties.

The Technology Partnership Canada Funding Investment reflected in the accompanying statements of operations comprises the following:

	2005 $	2004 $
Amounts claimed under under the TPC program, net of commissions	-	(603,074)
Payment to the Government of Canada for settlement on audit	-	568,268
Reversal of commissions previously charged	-	(184,247)
Payment received from the Government of Canada, under the TPC program	(37,689)	-
Overpayment received and payable to the Government of Canada, under the TPC program	22,063	-
Royalties paid to the Government of Canada, under the TPC program	5,278	-
Accrued royalties payable to the Government of Canada, under the TPC program	225,000	-
	214,652	(219,053)

The ongoing audits of the TPC program are complete and the Company is currently reviewing the results of the audit and negotiating an extension of its TPC agreement. If the extension is granted by TPC and the Company accepts the extension, the Company will be required to pay approximately $387,000 and the original terms and conditions will be amended. If the company does not accept the extension, the Company is not obligated to pay approximately $387,000. The outcome of these negotiations is not known or determinable at this time. Accordingly no provision has been made. If the Company is found to be in default of its agreement with TPC, TPC can suspend or terminate any obligation and it can demand repayment of all or part of the contributions disbursed to the Company. To date the Company has received approximately $3.8 million in contributions and paid approximately $5,000 in royalties.

15. Commitments & Contingencies

A. The Company has a royalty contingency relating to software licensing which is expected to be paid in the following year. The Company has lease commitments for office premises and equipment with remaining terms of up to five years. The minimum lease payments and royalty payments in each of the next five years are approximately as follows:

	$
2006	1,136,144
2007	944,015
2008	786,190
2009	721,131
2010	721,131
	4,308,611

B. The Company warrants that its software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally ninety days. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

16. Financial Instruments & Risk Management

Fair values

The carrying amounts of cash and cash equivalents, accounts receivable, other receivable, and accounts payable approximate fair values due to their short maturities.

Credit and foreign currency risk

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

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. Management is of the opinion that any risk of accounting loss is significantly reduced due to the financial strength of the Company's major customers. The Company performs ongoing 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 US dollars, the Company incurs operating costs and has outstanding indebtedness that is denominated in

Canadian dollars. The Company incurs certain research and development expenses in the U.S. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company attempts to mitigate this risk by denominating many of its payment obligations in US dollars.

17. Derivative Financial Instruments/Foreign Exchange Contracts

The Company enters into transactions denominated in United States dollars and British pounds. As such its revenues, expenses, monetary assets and liabilities will be affected by fluctuations in the United States dollars and the British pound relative to its functional currency, Canadian dollars.

The Company purchased foreign exchange forward contracts to hedge sales to customers and expenditures expected to occur in the near future denominated in U.S. dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at August 31, 2005, the Company had no foreign exchange contracts maturing in the ensuing year. During fiscal 2005, the Company entered into foreign exchange contracts which matured throughout the year. For fiscal 2005 the Company has recorded an approximate foreign exchange loss of $21,000 related to these contracts.

18. Segmented Information

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.

Geographic information

Substantially all of the Company's goodwill is located in Canada. The Company's capital assets are located as follows:

	2005 $	2004 $
United States	165,902	-
Canada	705,443	709,462
Europe	109,235	128,806
	980,580	838,268

The Company earned revenues attributed to the following countries based on the location of the customer:

	2005 $	2004 $
United States	6,912,925	5,475,379
Canada	542,438	153,529
Europe	9,033,080	8,971,673
Other	1,050,662	575,347
	17,539,105	15,175,928

The Company earned revenue in the following groups:

	2005 $	2004 $
Hardware	1,944,910	2,707,584
Software	2,670,154	3,104,093
Services	12,924,041	9,364,251
	17,539,105	15,175,928

Significant customers

Three customers accounted for more than 10% of sales for the year ended August 31, 2005. One customer accounted for more than 10% of sales for the year ended August 31, 2004.

	% of Sales		% of Accounts Receivable
	2005 $	2004 $	2005 $
Customer 1	18%	21%	4%
Customer 2	14%	10%	21%
Customer 3	11%	6%	11%
	43%	37%	36%

19. Restructuring & Other Costs

During the fiscal year ended August 31, 2004, the Company approved and implemented a business restructuring which included severance and recruitment costs associated with the reorganization of the management team. No amounts remained payable and outstanding as of August 31, 2004.

20. Subsequent Event

On October 4, 2005, the Company concluded an $8.0 million financing with Wellington Financial Fund II ("Wellington Financial").

The financing is by way of secured debentures maturing on October 3, 2007. The maturity date may be extended by one year if the Company meets certain pre-determined financial targets and may also accelerate in certain circumstances including a default by the Company or in the event of a change of control of the Company. The Company has the right to repay the debentures in whole or in part, subject to certain restrictions. The debentures have an annual interest rate of 12.5% with monthly payments of interest only until maturity, and are collateralized by a charge over all of the assets of the Company and its subsidiaries. The net proceeds from the financing of approximately $7.0 million after deducting fees and expenses relating to the financing will be used primarily to fund the development of the Company's Windows CE-based mobile phone operating system, as well as for general working capital. As part of the financing, the Company has agreed to appoint a representative of Wellington Financial, to the Company's Board of Directors.

Concurrent with the financing, the Company has issued to Wellington Financial an aggregate of 3,870,968 special warrants of the Company. Each special warrant is exercisable, without payment of additional consideration, for one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.62 per share at any time prior to October 3, 2010.

21.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.

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