Financial Statements of

INTRINSYC SOFTWARE INC.

Years ended August 31, 1999 and 1998

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Intrinsyc Software Inc. as at August 31, 1999 and 1998 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

Significant measurement differences between Canadian and United States accounting principles are explained and quantified in note 12 to the financial statements.

"KPMG LLP"

Chartered Accountants

Vancouver, Canada

October 21, 1999, except as to note 11(d) which is as of November 6, 1999

COMMENTS BY AUDITOR FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in note 1 to the financial statements. Our report to the shareholders dated October 21, 1999, except as to note 11(d) which is as of November 6, 1999, is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

"KPMG LLP"

Chartered Accountants

Vancouver, Canada

October 21, 1999, except as to note 11(d) which is as of November 6, 1999

INTRINSYC SOFTWARE INC.

Balance Sheets

August 31, 1999 and 1998

	1999	1998
Assets		
Current assets:		
Cash	$ 201,780	$ 834,619
Accounts receivable	771,153	315,088
Due from Annabooks Software, LLC (note 3)	–	172,965
Inventory	37,859	–
Prepaid expenses	108,805	31,492
	1,119,597	1,354,164
Capital assets (note 4)	305,521	217,712
Technology rights and licenses (note 6(b))	–	219,820
	$ 1,425,118	$ 1,791,696
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 690,571	$ 769,845
Shareholders' equity:		
Share capital (note 5)	9,804,387	8,041,123
Deficit	(9,069,840)	(7,019,272)
	734,547	1,021,851
Operations (note 1)		
Commitments and contingencies (note 8)		
Subsequent events (note 11)		
	$ 1,425,118	$ 1,791,696

See accompanying notes to financial statements.

On behalf of the Board:

"Derek Spratt" Director

"William Yu" Director

INTRINSYC SOFTWARE INC.

Statements of Operations and Deficit

Years ended August 31, 1999 and 1998

	1999	1998
Revenues	$ 2,250,978	$ 562,904
Expenses:		
Marketing and sales (schedule)	1,175,130	986,897
Administration (schedule)	1,283,117	1,429,923
Research and development (schedule)	1,760,444	1,504,879
Costs relating to the failed merger with Annabooks Software, LLC (note 3)	82,855	515,581
	4,301,546	4,437,280
Net loss	2,050,568	3,874,376
Deficit, beginning of year	7,019,272	3,144,896
Deficit, end of year	$ 9,069,840	$ 7,019,272
Loss per share	$ 0.11	$ 0.24
Weighted average number of shares outstanding	17,981,235	15,869,330

See accompanying notes to financial statements.

INTRINSYC SOFTWARE INC.

Statements of Cash Flows

Years ended August 31, 1999 and 1998

	1999	1998
Cash provided by (used in):		
Cash flows from operating activities:		
Net loss	$ (2,050,568)	$ (3,874,376)
Items not involving cash:		
Depreciation and amortization	295,938	257,320
Expenses settled with the issuance of common shares:		
For services rendered	306,710	31,341
For compensation expense	51,931	–
Changes in non-cash operating working capital:		
Accounts receivable	(456,065)	(218,100)
Due from Annabooks Software, LLC	172,965	(172,965)
Inventory	(37,859)	–
Prepaid expenses	(77,313)	(5,602)
Accounts payable and accrued liabilities	(79,274)	308,234
Cash flows used in operating activities	(1,873,535)	(3,674,148)
Cash flows from investing activities:		
Purchase of capital assets	(163,927)	(137,519)
Cash flows used in investing activities	(163,927)	(137,519)
Cash flows from financing activities:		
Issuance of common stock:		
Private placements	896,619	918,959
Special warrants	–	1,931,073
Options	155,670	180,050
Warrants	352,334	1,347,137
Advance from shareholder	–	(80,000)
Cash flows used in financing activities	1,404,623	4,297,219
Increase (decrease) in cash	(632,839)	485,552
Cash, beginning of year	834,619	349,067
Cash, end of year	$ 201,780	$ 834,619
Supplementary information:		
Interest paid	$ 5,221	$ 4,020
Income taxes paid	–	–
Supplementary disclosure of non-cash financing activities:		
Stock issued for services	306,710	31,341
Stock issued for compensation	51,931	–

See accompanying notes to financial statements.

1. Operations:

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

As at August 31, 1999, the Company had an accumulated deficit of $9,069,840 and has incurred operating losses for the last five fiscal years. In addition, its current business operations have generated no net cash flow and additional funds will be required to further exploit the technologies. These financial statements are prepared on the basis of accounting principles applicable to a going concern which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing and to achieve profitable operations.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Significant measurement differences to United States generally accepted accounting principles are set out in note 12.

(b) Capital assets:

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

Assets	Rate
Computers and equipment	30%
Furniture and fixtures	20%

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

(c) Technology rights and licenses:

Acquired technology rights and licenses are stated at cost and amortized under the straight-line method over three years. The Company continuously evaluates the value of these assets to determine if its unamortized portion has sustained a permanent impairment in value due to future benefit being unlikely. The method used to determine whether there has been a permanent impairment in value is based upon projected cash flow from operations. Where a permanent impairment has occurred, the write-down is included in amortization expense in research and development expenses in the statement of operations.

2. Significant accounting policies (continued):

(d) Foreign currency:

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(e) Revenue recognition:

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

(f) Research and development:

Expenditures on research are expensed as incurred. Development expenditures are expensed as incurred unless they meet certain criteria in which case they are capitalized. No amounts have been capitalized to August 31, 1999.

(g) Investment tax credits:

Investment tax credits relating to current expenditures are recognized in income when there is reasonable assurance of realization. Tax credits related to capital expenditures reduce the cost of the related asset provided there is reasonable assurance of realization.

(h) Loss per share:

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

(i) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

2. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management has applied its judgment to the information available at the date of these financial statements in making such judgment which particularly apply to the implications of the Year 2000 Issue to the Company's operations. Actual results could differ from estimates made in preparing these financial statements.

(k) Comparative figures:

Certain of the comparative figures have been reclassified to conform to the 1999 presentation.

3. Due from Annabooks Software, LLC:

Advances totaling US $238,000 were made to Annabooks Software, LLC ("Annabooks"), a California limited company, at August 31, 1998. These advances were made in anticipation of a proposed merger between Annabooks and the Company that has since been canceled. All of the Company's costs relating to the merger have been expensed.

4. Capital assets:

			1999
	Cost	Accumulated depreciation	Net book value
Computers and equipment	$ 444,809	$ 167,005	$ 277,804
Furniture and fixtures	32,263	8,743	23,520
Leasehold improvements	4,197	–	4,197
	$ 481,269	$ 175,748	$ 305,521

			1998
	Cost	Accumulated depreciation	Net book value
Computers and equipment	$ 299,725	$ 94,560	$ 205,165
Furniture and fixtures	17,617	5,070	12,547
	$ 317,342	$ 99,630	$ 217,712

5. Share capital:

(a) Authorized:

93,330,000 common shares without par value

(b) Issued:

	Number of shares	Amount
Balance, August 31, 1997	15,612,668	$ 3,133,777
Issued:		
For cash on special warrants (note 5(c))	1,967,536	2,429,859
For cash on private placements	1,476,296	918,959
For exchange of services	21,467	31,341
For cash on exercise of warrants	3,605,564	1,347,137
For cash on exercise of options	346,866	180,050
Cancellation of escrow shares (note 5(f))	(5,670,000)	–
Balance, August 31, 1998	17,360,397	8,041,123
Issued:		
For cash on private placements	1,120,774	896,619
For cash on exercise of warrants	555,349	352,334
For cash on exercise of options	278,247	155,670
For exchange of services	314,318	306,710
For employee compensation	49,458	51,931
Balance, August 31, 1999	19,678,543	$ 9,804,387

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

(c) Special warrants:

During fiscal 1998, the Company issued 1,757,735 special warrants (the "Special Warrants") for $1.50 per Special Warrant. Pursuant to an agency agreement, the Company paid the Agent a commission of 7% of the gross proceeds from the sale of the Special Warrants. The Agent elected to receive $46,413 of the commission to which it was entitled by way of 30,942 Special Warrants.

Upon exercise of each Special Warrant, the holder was issued 1.1 units, each unit consisting of one common share and one half of one share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to acquire one common share at $1.75 per share at the earlier of January 20, 2000 and the 10th business day following the date on which the Company gives notice to the Trustee and the warrantholder that the closing market price of the Company's common shares has been greater than $5.00 per share for any consecutive 21 trading days preceding such notice.

5. Share capital (continued):

(d) Warrants:

August 31, 1998	Granted	Exercised	Expired/ cancelled	August 31, 1999	Exercise price	Expiry date
553,149	–	(553,149)	–	–	$ 0.63	August 6, 1999
90,000	–	–	–	90,000	1.44	November 19, 1999
980,022	–	(2,200)	–	977,822	1.75	January 20, 2000
–	937,500	–	–	937,500	1.10	February 10, 2001
1,623,171	937,500	(555,349)	–	2,005,322		

(e) Stock options:

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

August 31, 1998	Granted	Exercised	Expired/ cancelled	August 31, 1999	Exercise price	Expiry date
200,000	–	(29,080)	–	170,920	$ 0.50	October 21, 2001
300,000	–	(100,000)	–	200,000	0.40	December 27, 2001
550,000	–	(60,000)	–	490,000	0.66	March 4, 2002
404,000	–	(67,000)	–	337,000	0.59	May 15, 2002
267,000	–	–	–	267,000	0.77	June 22, 2002
80,000	–	(10,000)	–	70,000	0.74	August 21 2002
41,667	–	–	(41,667)	–	0.74	September 15, 2002
460,000	–	–	–	460,000	1.20	October 25, 2002
7,500	–	(4,167)	(3,333)	–	1.20	December 4, 2002
130,000	–	–	(30,000)	100,000	1.20	January 26, 2003
35,000	–	–	(35,000)	–	1.20	February 16, 2003
40,000	–	–	–	40,000	1.20	February 27, 2003
3,000	–	–	–	3,000	1.20	March 13, 2003
20,000	–	–	–	20,000	1.20	March 27, 2003
784,315	–	–	–	784,315	1.20	April 2, 2003
70,000	–	(8,000)	(40,000)	22,000	1.20	May 20, 2003
32,000	–	–	(2,000)	30,000	1.20	May 25, 2003
100,000	–	–	–	100,000	1.30	July 31, 2003
–	50,000	–	–	50,000	1.32	September 21, 2003
–	250,000	–	–	250,000	1.20	November 19, 2003
–	405,000	–	–	405,000	1.00	December 30, 2003
–	90,000	–	(30,000)	60,000	1.30	February 10, 2004
–	30,000	–	–	30,000	1.30	February 16, 2004
–	655,000	–	–	655,000	1.26	March 16, 2004
–	505,000	–	(20,000)	485,000	1.48	May 10, 2004
–	55,000	–	–	55,000	1.21	July 9, 2004
3,524,482	2,040,000	(278,247)	(202,000)	5,084,235		

(f) Cancellation of escrow shares:

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

6. Related party transactions:

Included within administration expenses for the year are $nil (1998 - $76,746) paid to companies controlled by officers and a director of the Company for the provision of management and consulting services to the Company. In addition, the Company paid $nil (1998 - $25,700) to a director of the Company for consulting services rendered.

7. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 45.6% (1998 - 45.6%) to income before income taxes due to valuation allowances provided against losses incurred in the year.

	1999	1998
Future income tax asset:		
Loss carryforwards	$ 4,054,000	$ 3,119,000
Less valuation allowance	(4,054,000)	(3,119,000)
	$ –	$ –

As at August 31, 1999, the Company has non-capital loss carry forwards aggregating approximately $8,890,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

2000	$ 54,000
2001	86,000
2002	352,000
2003	607,000
2004	1,984,000
2005	3,757,000
2006	2,050,000
	$ 8,890,000

As indicated above, the tax benefits related to these loss carry forwards, the application of which may be restricted, have not been recognized in these financial statements as management does not consider it more likely than not that such assets will be realized in the carryfoward period.

8. Commitments and contingencies:

(a) Operating leases:

The Company has lease commitments for office premises and equipment expiring at various dates. The agreements require rental payments over the next five years approximately as follows:

2000	$ 152,000
2001	168,000
2002	148,000
2003	145,000
2004	145,000
	$ 758,000

8. Commitments and contingencies (continued):

(b) Technology rights and licenses:

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

During fiscal 1999, there were no sales of Signal or WinFT and no royalties were paid. Technology rights and licenses have been fully amortized to research and development expense as of August 31, 1999.

(c) Year 2000 Issue:

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

9. Financial instruments and risk management:

(a) Fair values:

The carrying amounts of cash, accounts receivable and accounts payable and accrued liabilities, approximate their fair values due to their ability for prompt liquidation or short-term to maturity.

(b) Credit risk:

The Company is exposed to credit risk only with respect to uncertainties as to timing and amount of collectibility of accounts receivable. At August 31, 1999, three customers represented approximately 75% of accounts receivable. These receivables are from large reputable customers with an established credit history with the Company.

(c) Foreign currency risk:

Foreign currency risk is the risk to the Company’s earnings that arises from fluctuations in foreign currency exchange rates, and the degree of volatility of these rates. A substantial portion of the Company’s sales are derived in United States dollars and accordingly the majority of the Company's accounts receivable is denominated in United States dollars. The Company has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

10. Segmented information:

(a) Operating segments:

The Company is managed as a single operating segment, involving the sale and service of embedded hardware and software solutions.

(b) Geographic information:

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

	1999	1998
United States	$ 1,877,891	$ 439,081
Canada	209,164	51,151
Other	163,923	72,672
	$ 2,250,978	$ 562,904

(c) Major customers:

For the year ended August 31, 1999, revenue from one customer represents approximately $1,474,000 (1998 - $65,000) of the Company's total revenue.

11. Subsequent events:

Subsequent to year end, the Company:

(a) Issued 323,858 common shares to settle obligations of $294,711.

(b) Granted employee stock options to purchase 280,000 common shares at an exercise price of $0.91 per share. The options expire on September 1, 2004.

(c) Issued 12,854 shares for employee compensation of $11,697.

(d) Completed a private placement of 900,000 common shares at $1 per share together with non-transferable share purchase warrants to purchase an additional 450,000 common shares. The share purchase warrants are exercisable to November 6, 2000 at $1.15 per share.

12. United States generally accepted accounting principles ("US GAAP") reconciliation:

The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. These principles differ in the following material respects from those in the United States as summarized below:

(a) Loss for the year and loss per share:

		1999	1998
Loss for the year in accordance with Canadian GAAP		$ (2,050,568)	$ (3,874,376)
Difference in accounting for:			
Stock-based compensation	(c)	(171,577)	(34,476)
Research and development costs	(d)	219,820	187,667
Loss for the year in accordance with US GAAP		$ (2,002,325)	$ (3,721,185)
Loss per share in accordance with US GAAP		$ 0.11	$ 0.23

12. United States generally accepted accounting principles (“US GAAP”) reconciliation (continued):

(b) Balance sheets:

The amounts in the balance sheets that differ from those reported under Canadian GAAP are as follows:

		1999		1998	
		Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Technology rights and licenses	(d)	$ –	$ –	$ 219,820	$ –
Shareholders equity:					
Share capital		9,804,387	10,010,440	8,041,123	8,075,599
Deficit	(c)	(9,069,840)	(9,275,893)	(7,019,272)	(7,273,568)

(c) Stock-based compensation:

For US GAAP purposes, the Company has elected to follow the disclosure-only provisions under Statement of Financial Accounting Standards No. 123 (“FAS 123”) “Accounting for Stock-Based Compensation”; and applies Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (“APB 25”) and related interpretations in accounting for its stock-based compensation to employees. Accordingly, the Company’s stock-based compensation expense is measured based on the intrinsic value of the option on the date of grant. FAS 123 requires companies that continue to follow APB 25 to disclose the impact of applying the fair value method of FAS 123.

Under the intrinsic value method of APB 25, the stock option compensation is the excess, if any, of the quoted market value of the stock at the measurement date of the grant over the amount an optionee must pay to acquire the stock. Accordingly, stock-based compensation for the years ended August 31, 1999 and 1998, for United States GAAP purposes, would be $171,577, and $34,476, respectively.

(d) Research and development costs:

For US GAAP purposes, research and development costs are expensed as incurred. Under Canadian GAAP, research costs are expensed as incurred and development costs are expensed as incurred except when the costs associated with the process are clearly identifiable, the Company has indicated its intention to use the process, and funding for continued development is available. In these circumstances, the costs are deferred and amortized on a systematic basis.

In these financial statements, patents, deferred development costs and technology rights and licenses are considered to be research and development costs and would be expensed as incurred under US GAAP.

12. United States generally accepted accounting principles ("US GAAP") reconciliation (continued):

(e) Development stage enterprises:

For US GAAP purposes, Statement of Financial Accounting Standards No. 7, "Development Stage Enterprises", the Company would be defined to be a development stage enterprise which would require the following additional disclosures:

(*i*) The amounts in the consolidated statement of operations and deficit accumulated during the development stage would be presented on a cumulative basis from the Company's inception to August 31 ,1999 which is summarized as follows:

Revenues, net	$ 3,235,302
Expenses:	
Marketing and sales	2,707,167
Administration	4,818,005
Research and development	4,387,587
Costs relating to the failed merger with Annabooks Software, LLC	598,436
Loss accumulated during the development stage under U.S. GAAP	$ (9,275,893)

(*ii*) The amounts in the consolidated statement of cash flows would also be presented on a cumulative basis from the Company's inception which is summarized as follows:

Cash flows from operating activities:	
Loss accumulated during the development stage	$ (9,275,893)
Items not involving cash:	
Depreciation and amortization	767,431
Reduction in inventory to net realizable value	47,104
Stock-based compensation expense	206,053
Expenses settled with the issuance of common shares:	
For services rendered	338,051
For compensation expense	51,931
Changes in non-cash operating working capital:	
Accounts receivable	(771,153)
Inventory	(84,963)
Prepaid expenses	(108,805)
Accounts payable and accrued liabilities	690,571
Cash flows from operations	(8,139,673)
Cash flows from investing activities:	
Purchase of capital assets	(501,751)
Purchase of technology rights and licenses	(571,201)
Cash flows used in investing activities	(1,072,952)
Cash flows from financing activities:	
Issuance of common stock:	
Private placements	5,448,141
Special warrants	1,931,073
Options	335,720
Warrants	1,699,471
Cash flows used in financing	9,414,405
Increase in cash during the development stage	201,780
Cash, inception of development stage	–
Cash, August 31, 1999	$ 201,780

12. United States generally accepted accounting principles ("US GAAP") reconciliation (continued):

(e) Development stage enterprises (continued):

(*iii*) A cumulative statement of stockholders' equity would be presented as follows:

	Share capital		Retained earnings	
	Number	Amount	(deficit)	Total
Balance, August 31, 1993 (inception)	–	$ –	$ –	$ –
Shares issued for cash	1,000,000	100	–	100
Loss for the year	–	–	(89,868)	(89,868)
Balance, August 31, 1993	1,000,000	100	(89,868)	(89,768)
Shares issued for cash	805,027	201,256	–	201,256
Shares issued for services and unpaid salary	236,105	59,026	–	59,026
Shares issued for compensation	2,230,314	22,400	–	22,400
Shares gifted back to Company	(1,000,000)	–	–	–
Loss for the year	–	–	(67,852)	(67,852)
Balance, August 31, 1994	3,271,446	282,782	(157,720)	125,062
Shares issued for cash	704,000	176,000	–	176,000
Shares issued for compensation	1,440,086	14,400	–	14,400
Loss for the year	–	–	(314,009)	(314,009)
Balance, August 31, 1995	5,415,532	473,182	(471,729)	1,453
Shares issued for public offering	1,737,500	392,115	–	392,115
Shares issued for cash	140,000	35,000	–	35,000
Conversion of debt into shares	74,040	41,463	–	41,463
Exercise of warrants	134,000	53,600	–	53,600
Loss for the year	–	–	(602,928)	(602,928)
Balance, August 31, 1996	7,501,072	995,360	(1,074,657)	(79,297)
Shares issued for cash	5,356,667	1,723,455	–	1,723,455
Conversion of debt into cash	21,739	10,000	–	10,000
Exercise of warrants	183,333	60,000	–	60,000
Exercise of options	282,000	154,530	–	154,530
Shares issued for services	67,857	29,432	–	29,432
Shares issued in exchange for technology rights and licenses	2,200,000	161,000	–	161,000
Loss for the year	–	–	(2,477,726)	(2,477,726)
Balance carried forward August 31, 1997	15,612,668	3,133,777	(3,552,383)	(418,606)

12. United States generally accepted accounting principles ("US GAAP") reconciliation (continued):

(e) Development stage enterprises (continued):

(*iii*) A cumulative statement of stockholders' equity would be presented (continued):

	Share capital Number	Share capital Amount	Retained earnings (deficit)	Total
Balance brought forward August 31, 1997	15,612,668	$ 3,133,777	$(3,552,383)	$ (418,606)
Shares issued for cash on special warrants	1,967,536	2,429,859	–	2,429,859
Shares issued for cash	1,476,296	918,959	–	918,959
Conversion of debt into shares	21,467	31,341	–	31,341
Shares issued on exercise of warrants	3,605,564	1,347,137	–	1,347,137
Shares issued on exercise of options	346,866	180,050	–	180,050
Options issued	–	34,476	–	34,476
Cancellation of escrow shares	(5,670,000)	–	–	–
Loss for the year	–	–	(3,721,185)	(3,721,185)
Balance, August 31, 1998	17,360,397	8,075,599	(7,273,568)	802,031
Shares issued for cash	1,120,774	896,619	–	896,619
Shares issued on exercise of warrants	555,349	352,334	–	352,334
Shares issued on exercise of options	278,247	155,670	–	155,670
Shares issued in exchange for services	314,318	306,710	–	306,710
Shares issued in compensation	49,458	51,931	–	51,931
Options issued	–	171,577	–	171,577
Loss for the year	–	–	(2,002,325)	(2,002,325)
Balance, August 31, 1999	19,678,543	$ 10,010,440	$(9,275,893)	$ 734,547

Identification as a development stage enterprise would not impact the measurement principles applied.

INTRINSYC SOFTWARE INC.

Schedules of Marketing and Sales, Administration and Research and Development Expenses

Years ended August 31, 1999 and 1998

	1999	1998
Marketing and sales expenses:		
Advertising	$ 206,853	$ 303,573
Bad debts	43,413	–
Professional fees	197,956	43,437
Royalty	–	13,370
Salaries and benefits	632,800	541,841
Travel	94,108	84,676
	$ 1,175,130	$ 986,897
Administration expenses:		
Depreciation and amortization	$ 76,118	$ 69,653
Legal and accounting	123,914	114,281
Office	308,267	397,431
Premises	77,528	127,841
Salaries and benefits	482,114	301,317
Shareholder relations	132,840	357,248
Travel	82,336	62,152
	$ 1,283,117	$ 1,429,923
Research and development expenses:		
Amortization	$ 219,820	$ 187,667
Materials	61,746	6,455
Professional fees	456,480	408,900
Salaries and benefits	987,538	862,875
Travel	34,860	38,982
	$ 1,760,444	$ 1,504,879