2001 Financials

Overview

Management's discussion and analysis of the financial condition and results of operations of Intrinsyc Software, Inc. should be read in conjunction with the consolidated audited financial statements and the notes thereto.

Revenue for the year increased to $10.9 million from $3.0 million in the previous year. The growth in revenue was strong across all product lines but most significant in software and run-time licensing. This favorable mix of product revenue resulted in an improvement in gross margin to 57.4% for the year compared to 39.2% in 2000. One significant customer accounted for approximately $1.5 million of revenue in the year.

The acquisition of Linar, Ltd. in January of 2001 provided a key building block in our embedded to enterprise total solution. Since the acquisition, we have developed several follow-on products to the original J-Integra offering. We also invested in several other new products in the year including three new reference designs, Cerf™Cube, Cerf™Pod and Cerf™PDA.

Intrinsyc expanded its market presence throughout the year by opening and staffing of 6 regional sales offices. We also increased our marketing efforts, which included opening a channel for the web based sale and distribution of reference designs and software. As a result of the increase in operating costs, as well as the amortization of goodwill and intellectual property, the net loss for the year increased to $3.7 million or $0.12 per share from $3.4 million or $0.16 per share in 2000.

The Company ended the year with cash and cash equivalents of $15.1 million as compared to $7.2 million at the end of 2000. The increase in cash was primarily attributable to proceeds of the special warrant financing of $12.4 million netted against cash used in operations of $1.2 million and cash used to acquire Linar, Ltd. of $4.1 million.

Results from Operations

For the fiscal year ending August 31, 2001, Intrinsyc posted revenues of $10.9 million, an increase of 268%, or $7.9 million over the previous year revenues of $3.0 million. This increase in sales was strong across all product lines but most significant in the software and run-time license categories. Services revenue comprised 41% of the revenue in the year, down from 71% in the previous year, with licensing revenue amounting to 40% of revenue, (9% in the prior year), and sales of products generating 19% of revenue, (20% in the prior year). As a result of this favorable mix the gross margin on sales for the year improved to 57.4% from 39.2% in 2000. One significant customer accounted for approximately $1.5 million of revenue in the year.

During the year Intrinsyc made significant investments in regional sales offices and new product developments as well as the purchase of Linar Inc. and its J-Integra™ product line. These initiatives resulted in higher costs in 2001 with a net loss of $3.7 million ($0.12 per share) as compared to the net loss in 2000 of $3.4 million ($0.16 per share)

General and Administration expenses increased to $2.9 million from $1.4 million in the previous year. These additional expenses are mainly due to the increase in support infrastructure required to accommodate revenue growth as represented by additional personnel, higher professional fees and increased facility and overhead costs.

Sales and Marketing expenses increased 98% to $4.4 million from $2.2 million. This increase is largely due to increased personnel and recruitment costs together with facility costs associated with the opening of 6 new regional sales offices in Boston, Chicago, Dallas, San Francisco, London and Zurich.

Research and Development expenses increased 164% to $2.8 million from $1.1 million in the prior year. During 2001 we made significant commitments to several new products as well as the ongoing development team acquired through the purchase of Linar Ltd.

In 2001 the Company earned $823,845 in interest income on cash balances compared to $192,060 earned in the prior year.

Amortization in 2001 of $814,818 increased by $685,838 over the prior year mainly due to the acquisition of goodwill and intellectual property associated with the Linar purchase.

Liquidity and Capital Resources

As of August 31, 2001, the Company had cash and cash equivalents of $15.1 million and working capital of $13.9 million compared to $7.4 million of working capital as at August 31, 2000. During the year the Company generated $13.9 million from the issue of 4.3 million common shares on the exercise of special warrants and options. An additional 323,000 shares were issued as part of the acquisition of Linar, Ltd.

In 2001 the Company acquired all of the outstanding shares of Linar Ltd., a U.K. based company for a combination of shares, cash and future consideration. Cash used in the acquisition totaled $4.1 million in 2001 including funds net of cash included with the purchase. Capital assets in the amount of $674,509 consisting mainly of computer equipment and software were purchased in 2001 compared to $516,119 in the prior year.

Intrinsyc continues to have no long-term debt.

Risks and Uncertainties

Intrinsyc faces the risks normally associated with high growth technology companies.

- **Managing Rapid Growth**: The Company's growth continues to strain the management information systems and resources. Intrinsyc will continue to invest in systems, procedures and controls as necessary to accommodate the requirements of an expanding business.
- **Large Software Orders**: With the increase in the business mix of large, high margin software and run-time licenses, the quarterly revenues of Intrinsyc may fluctuate somewhat depending on individual customers' budget cycles and economic factors.
- **Attracting and Retaining Key Personnel**: Intrinsyc's success will depend in part on its ability to attract and retain highly skilled technical, managerial, and marketing personnel. Intrinsyc will continuously review its benefit and compensation structure to ensure that the Company remains an attractive employer and maintains an exciting and challenging work environment.
- **Increased Competition**: The embedded computing market will continue to attract substantial competition and innovation. Intrinsyc will continue to invest in developing new products and technologies to enhance the competitiveness of our solutions and our vision.
- **Uncertain Economy**: Recently it has been graphically and materially demonstrated that unpredictable global events have the ability to cause significant impact on national economies and global corporations. Intrinsyc believes that the expanding embedded technology sector has sufficient momentum to overcome the current economic slow down with no long-term deleterious effects.

Outlook

Intrinsyc achieved substantial progress in 2001 in terms of revenue growth, the addition of new customers and relationships, and securing a strong financial position to fund ongoing operations.

For fiscal 2002, we continue to believe that the Embedded-Enterprise market will experience strong growth, and are confident that our technologies will keep us well positioned to capitalize on this growth. We have a strong balance sheet and a high degree of confidence in our business model and distribution channels.

We will continue to invest in technology, people, vertical markets and strong alliances and partnerships with significant industry participants. As an operating-system independent solution provider we will continue to sell solutions that allow leading companies to create, link and manage Internet devices, information appliances and connected applications.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The management of Intrinsyc Software, Inc. is responsible for the preparation of the accompanying consolidated financial statements and the presentation of all information in the Annual Report. The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Canada and are considered by management to present fairly the financial position and operating results of the Company. The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements. The Company's audit committee is composed entirely of non-management directors and is appointed by the Board of Directors annually. The committees meet periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors who have approved the consolidated financial statements. The Company's independent auditors, KPMG LLP, have examined the consolidated financial statements and their report follows.

Neil McDonnall
President & CEO

Chuck Leighton
Director of Finance

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Intrinsyc Software, Inc. as at August 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2001 and 2000 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.

KPMG LLP

Chartered Accountants

Vancouver, Canada
September 28, 2001

August 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 15,065,099	$ 7,188,100
Funds held in trust (note 3)	517,700	–
Accounts receivable	1,559,374	688,468
Inventory	298,245	326,606
Prepaid expenses	270,432	63,590
	17,710,850	8,266,764
Funds held in trust (note 3)	1,035,745	–
Capital assets (note 4)	1,103,820	724,546
Other assets (note 5)	3,469,353	–
	$ 23,319,768	$ 8,991,310
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,633,541	$ 689,735
Deferred revenue	1,108,701	132,972
Obligation under capital lease (note 6)	38,027	15,943
	3,780,269	838,650
Shareholders' equity:		
Share capital (note 7)	35,601,782	20,620,778
Share purchase warrants (note 3)	140,000	–
Deficit	(16,202,283)	(12,468,118)
	19,539,499	8,152,660
	$ 23,319,768	$ 8,991,310

Commitments (note 9)
Subsequent event (note 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Morgan Sturdy, Director

Robert Gayton, Director

Consolidated Statements of Operations and Deficit

Years ended August 31, 2001 and 2000

	2001	2000
Revenues	$ **10,940,424**	$ 2,974,363
Cost of sales	**4,660,290**	1,808,288
	6,280,134	1,166,075
Expenses:		
Administration	**2,891,097**	1,373,921
Marketing and sales	**4,362,627**	2,204,411
Research and development	**2,769,602**	1,049,101
Amortization	**814,818**	128,980
	10,838,144	4,756,413
Loss before interest income	**4,558,010**	3,590,338
Interest income	**823,845**	192,060
Loss for the year	**3,734,165**	3,398,278
Deficit, beginning of year	**12,468,118**	9,069,840
Deficit, end of year	$ **16,202,283**	$ 12,468,118
Loss per share	$ **0.12**	$ 0.16
Weighted average number of shares outstanding	**31,211,546**	21,893,901

See accompanying notes to consolidated financial statements.

Years ended August 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (3,734,165)	$ (3,398,278)
Items not involving cash:		
Amortization	814,818	128,980
Expenses settled with the issuance of common shares:		
For services rendered	–	294,711
For compensation expense	–	46,238
Changes in non-cash operating working capital:		
Accounts receivable	(401,717)	82,685
Inventory	28,361	(288,747)
Prepaid expenses	(206,842)	45,215
Accounts payable and accrued liabilities	1,305,643	(836)
Deferred revenue	975,729	132,972
	(1,218,173)	(2,957,060)
Investing activities:		
Acquisition of Linar Ltd., net of $466,318 cash acquired (note 3)	(2,587,221)	–
Funds held in trust (note 3)	(1,553,445)	–
Purchase of capital assets	(674,509)	(516,119)
	(4,815,175)	(516,119)
Financing activities:		
Issuance of common shares for cash:		
Special warrants, net of issue costs	12,396,755	5,438,493
Private placement	–	900,000
Options	416,903	2,298,705
Warrants	1,133,746	1,838,244
Repayment of obligation under capital lease	(37,057)	(15,943)
	13,910,347	10,459,499
Increase in cash and cash equivalents	7,876,999	6,986,320
Cash and cash equivalents, beginning of year	7,188,100	201,780
Cash and cash equivalents, end of year	$ 15,065,099	$ 7,188,100
Supplementary information:		
Interest paid	$ –	$ 8,594
Non-cash financing activities:		
Common shares issued for services rendered	–	294,711
Common shares issued for employee compensation	–	46,238
Acquisition of capital asset funded by capital lease	59,141	31,886
Non-cash investing:		
Common shares issued for acquisition of Linar Ltd. (note 3)	1,033,600	–
Warrants issued on acquisition of Linar Ltd. (note 3)	140,000	–

See accompanying notes to consolidated financial statements.

Years ended August 31, 2001 and 2000

1. Organization:

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

2. Significant accounting policies:

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

(a) Principles of consolidation:

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

(b) Use of estimates:

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

(c) Cash equivalents:

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

(d) Inventory:

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

(e) Research and development:

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

(f) Capital assets:

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

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

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

(g) Intellectual property:

Intellectual property is recorded at cost and is amortized on a straight-line basis over three years.

(h) Goodwill:

Goodwill consists of the excess of cost over the assigned values of net identifiable assets acquired and is being amortized on a straight-line basis over five years.

(i) 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 collectibility.

(j) Warranty costs:

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

2. **Significant accounting policies (continued):**

(k) 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.

(l) Impairment of capital assets:

The Company monitors the recoverability of capital assets, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when the Company determines that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to the undiscounted future cash flows. To August 31, 2001, the Company has not recorded any such impairment losses.

(m) Translation of foreign currencies:

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

(n) Share compensation:

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

Shares issued for non-cash consideration are valued at the closing price of the Company's stock prior to the date the obligation for issuance occurs.

(o) 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.

(p) 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 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.

(q) 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.

3. Acquisition:

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. 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 Company's interest in the net assets acquired at fair values is as follows:

Cash	$	466,318
Current assets		469,189
Intellectual property		1,200,000
Current liabilities		(638,163)
Goodwill		2,729,795
	$	4,227,139
Consideration:		
323,000 common shares at a price of $3.20 per share	$	1,033,600
Cash consideration (U.S. $1,500,000)		2,250,000
Cash consideration based on attaining revenues from specific sales opportunities (U.S. $500,000)		769,250
100,000 warrants to purchase common shares with an exercise price of $3.20 per share, expiring on January 26, 2006		140,000
Cash expenses on acquisition		34,289
	$	4,227,139

The common shares issued are subject to a holding period and may not be traded until January 26, 2002. The Company agreed to a floor price cash guarantee on the common shares equal to 75% of the issuance price of $3.20 per share for a period of two years until January 26, 2003. Cash payments of up to U.S. $1,000,000 ($1,553,445) may become payable upon the achievement of specified performance criteria by a certain employee until January 26, 2004 and will be recorded as an expense in the period the obligation is incurred. The cash is held in trust pursuant to the acquisition agreement to be paid upon the achievement of the criteria. The first payment of U.S. $334,000 ($517,700) will be required on January 26, 2002 if the performance criteria is achieved. Warrants to purchase 25,000 common shares of the Company are also issuable with an exercise price equal to fair market value on January 26, 2003 if specified criteria have been met.

4. Capital assets:

2001	Cost	Accumulated amortization	Net book value
Computers and equipment	$ 1,031,602	$ 415,310	$ 616,292
Computer software	403,577	148,355	255,222
Furniture and fixtures	251,286	79,901	171,385
Leasehold improvements	76,455	15,534	60,921
	$ 1,762,920	$ 659,100	$ 1,103,820

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

As at August 31, 2001, an asset under capital lease with a cost of $57,041 (2000 - $31,886) and accumulated amortization of $4,846 (2000 - $8,354) is included in capital assets.

5. Other assets:

	Cost	Accumulated amortization	2001 Net book value	2000 Net book value
Intellectual property	$ 1,200,000	$ 233,331	$ 966,669	$ –
Goodwill	2,729,795	227,111	2,502,684	–
	$ 3,929,795	$ 460,442	$3,469,353	$ –

6. Obligation under capital lease:

During the year, the Company entered into a capital lease for test equipment. As at August 31, 2001, minimum lease payments are as follows:

2002	$ 39,427
Amount representing interest at 7%	(1,400)
Current portion of obligation under capital lease	$ 38,027

7. Share capital:

(a) Authorized:
100,000,000 common shares without par value
10,000,000 preference shares without par value

(b) Issued:

	Number of shares	Amount
Outstanding, August 31, 1999	19,678,543	$ 9,804,387
Shares issued for cash on:		
Private placement	900,000	900,000
Exercise of special warrants, net of share issue costs	3,000,000	5,438,493
Exercise of warrants	1,212,595	1,838,244
Exercise of options	2,582,081	2,298,705
Shares issued in consideration of:		
Services rendered	323,859	294,711
Compensation for employees	39,207	46,238
Outstanding, August 31, 2000	27,736,285	20,620,778
Shares issued for cash on:		
Exercise of special warrants, net of share issue costs	3,000,000	12,396,755
Exercise of warrants	848,900	1,133,746
Exercise of options	425,414	416,903
Shares issued in consideration of:		
Acquisition of Linar Ltd. (note 3)	323,000	1,033,600
Outstanding, August 31, 2001	32,333,599	$ 35,601,782

(c) Share option plan:

Under the terms of the Company's employee share option plan, the Board of Directors may grant options to employees, officers and directors. The plan provides for the granting of options at the closing price of the Company's stock prior to the grant date. Options granted before May 11, 1999 generally vest over two and one-half years with the first 10% vesting at the first quarter anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. Options granted on or after May 11, 1999 and before April 5, 2001 generally vest over three years with the first 1/12 vesting at the first quarter anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. Options granted on or after April 5, 2001 generally vest over three years with the first 1/3 vesting at the first year 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 9,647,581 options for issuance under its employee share option plan.

7. Share capital (continued):

(c) Share option plan (continued):

A summary of the Company's share option activity for the years ended August 31, 2001 and 2000, is as follows:

		Outstanding options
	Number of shares	Weighted average exercise price
Outstanding, August 31, 1999	5,084,235	$ 1.05
Options granted	1,985,200	2.95
Options exercised	(2,582,081)	0.89
Options cancelled	(758,522)	1.27
Outstanding, August 31, 2000	3,728,832	$ 2.09
Options granted	826,500	3.18
Options exercised	(425,414)	0.98
Options cancelled	(332,227)	2.05
Outstanding, August 31, 2001	3,797,691	$ 2.44

The following table summarizes the share options outstanding at August 31, 2001:

	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
$ 0.59 - $ 1.21	991,078	2.23 years	$ 1.15	776,809	$ 1.15
$ 1.26 - $ 2.97	1,232,949	3.10 years	$ 1.74	845,973	$ 1.44
$ 3.05 - $ 4.50	1,573,664	3.89 years	$ 3.82	485,021	$ 3.83
	3,797,691	3.20 years	$ 2.44	2,107,803	$ 1.88

7. **Share capital (continued):**

(d) Share purchase warrants:

A summary of the Company's share purchase warrants for the years ended August 31, 2001 and 2000 is as follows:

		Outstanding warrants
	Number of warrants	Weighted average warrant price
Outstanding, August 31, 1999	2,005,322	$ 1.43
Warrants granted	2,250,000	2.16
Warrants exercised	(1,212,595)	1.52
Warrants cancelled	(718,827)	1.71
Outstanding, August 31, 2000	2,323,900	$ 2.01
Warrants granted	1,900,000	5.50
Warrants exercised	(848,900)	1.34
Outstanding, August 31, 2001	3,375,000	$ 4.17

(e) Special warrants:

On September 13, 2000, the Company completed a private placement of 3,000,000 Special Warrants at $4.50 per Special Warrant, for gross proceeds of $13,500,000. Each Special Warrant entitled the holder to one common share and one-half of one non-transferable share purchase warrant. The Special Warrants were exercised in December 2000, resulting in the issuance of 3,000,000 common shares of the Company and 1,500,000 non-transferable share purchase warrants. Each whole warrant is exercisable into one common share at $5.85 to March 13, 2002. The Company also granted to the Agents a non-assignable warrant to purchase 300,000 Special Warrants at $4.50 per Special Warrant until March 13, 2002.

On January 26, 2001, the Company issued 100,000 warrants as part of the acquisition for Linar Ltd. (note 3). Each warrant is exercisable into one common share at $3.20 per share to January 26, 2006. One-third of the warrants shall vest and become exercisable on January 26, 2002. Thereafter, the warrants shall vest and become exercisable as to 1/12th of the total number of warrants per quarter, over 24 months, subject to the terms of the acquisition.

8. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 44.6% (2000 - 44.6%) to income before income taxes due primarily to valuation allowances provided against losses incurred in the year.

The composition of the Company's future tax assets at August 31, 2001 and 2000 are as follows:

	2001	2000
Future tax assets:		
Capital assets	$ 559,000	$ 465,000
Loss carry forwards	5,400,000	4,700,000
Share issue costs	610,000	214,000
	6,569,000	5,379,000
Valuation allowance	(6,569,000)	(5,379,000)
	$ –	$ –

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

As at August 31, 2001, the Company has non-capital loss carry forwards aggregating approximately $14,559,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

2002	$ 352,000
2003	607,000
2004	1,900,000
2005	3,200,000
2006	1,700,000
2007	3,500,000
2008	3,600,000
	$ 14,859,000

9. Commitments:

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

2002	$ 526,000
2003	484,000
2004	484,000
2005	444,000
2006	2,000
	$ 1,940,000

10. Financial instruments and risk management:

(a) Fair values:

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

(b) 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 on-going credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

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

11. Segmented information:

(a) Operating segments:

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

(b) Geographic information:

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

	2001	2000
United States	$ 8,186,297	$ 1,848,186
Canada	1,193,447	609,207
Europe	909,645	316,414
Other	651,035	200,556
	$ 10,940,424	$ 2,974,363

(c) Significant customers:

For the year ended August 31, 2001, revenue from one customer represented approximately $1,538,462 of the Company's total revenues. For the year ended August 31, 2000, there were no significant customers.

12. Subsequent event:

Subsequent to year-end, the Company granted employee stock options to purchase 739,325 common shares at an exercise price of $1.85 per share, expiring on September 18, 2006.