Intrinsyc Software
International, Inc.
Annual Report 2003

Helping Engineer Solutions for the Connected World

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To Our Shareholders

In April of 2003 I returned to Intrinsyc as President and CEO after a two year absence. This is a great Company to be a part of with wonderful people and assets. It is also a great time to be engaged in expanding our business prospects as our industry moves forward under the winds of an improving economy and grass roots revolution in daily use technology. These are clearly exciting times for us all.

2003 was a pivotal year for Intrinsyc with a significant change in management and the restructuring of our operations during a period of economic consolidation in the technology arena. It has been a period of renewal with the development of our fiscal 2004 strategic and operating plans. Entering the new fiscal year, we have the right mix of technologies, knowledge, capabilities, partnerships, customers and strategic plans to capitalize on the abundant opportunities afforded to us as our solutions gain traction in our key target markets.

Financially, Intrinsyc achieved $14 million in revenues during our fiscal 2003. In fiscal 2004 we fully intend to reverse the financial losses incurred in 2003 by keeping a keen eye on our cost structure and our operational efficiencies, while aggressively charting a course for top line revenue growth and bottom line profitability.

During 2003 we successfully licensed our first smartphone based technologies to two major Original Equipment Manufacturers (OEMs), thereby solidifying our presence in this burgeoning new market. We also negotiated our first ever multi-year outsourcing agreements with two key customers while forging a market for our new Ja.NET bridging and CerfWorks device management solutions.

Our 2003 intelligent device strategy included developing our competencies and technology base in the Symbian operating system. Increasingly we expect to see the intelligent device platform as a leverage point for our technologies and knowledge base, with Intrinsyc helping our device OEM customers and partners create derivative products for their specific industries. We now have all the bases covered as we enter 2004 with our significant competencies and partnerships with all of the leading technology vendors: Microsoft, Symbian, Intel, and IBM, among others.

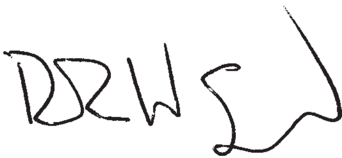
Another key arena where Intrinsyc invested, in the last fiscal year, was in the CerfWorks enterprise device integration technologies. This market is quickly emerging from the widespread diffusion of device-based technology. With deployment of these devices, a network is created, and the life-cycle costs of these devices to the end-users and the network operators, becomes critical and in need of management. This is a rapidly growing market, where Intrinsyc intends to partner with key device OEM customers to deliver complete networked solutions.

Letter to Shareholders continued

Finally, in 2003 Intrinsyc commercially released its Ja.NET Java to .NET bridging solutions for Microsoft's .NET corporate server based applications. Like J-Integra before it, Ja.NET is poised to create yet another success story for our Company.

Our vision is of individual devices as nodes within a network with Intrinsyc leveraging and extending its position as both a leading device OEM technology and services provider and an emerging enterprise software vendor. We are working to "connect the dots" and draw on our diverse knowledge and intellectual property base to build enterprise-to-device connectivity and data processing solutions that will open new doors for our continued growth. We expect to bring our traditional in-depth knowledge of device technologies into the enterprise world and help build the business logic and transactional processing elements that next generation networks will be based on.

I would like to thank all of our employees, partners, customers, and shareholders for their support during the past year. I look forward to sharing a successful 2004 with all of you.



Derek Spratt
President and Chief Executive Officer

Financial Review Year ended Aug 31, 2003

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Management's Discussion & Analysis

Overview

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

Revenue for the year decreased to $13.9 million from $14.2 million in the previous year. Service revenue increased significantly in the year offset by a corresponding decline in licensing revenue. The change in mix as well as the aging of certain inventory items resulted in a decline in gross margin to 35% for the year as compared to 50% in the prior year. There were no significant customers in the year.

In the third quarter of 2003 the Company announced a re-structuring of operations including a significant reduction in headcount and overhead expenses. A charge of $712,393 was made in the year against operations to provide for severance and other fees related to the re-structuring.

The strengthening of the Canadian dollar in the year had a negative impact on the Company. Revenues which are contracted and invoiced in US dollars were reduced, as was margin, given the Canadian dollar cost base of operations. In addition, the Company had significant balance sheet exposure due to its US$ receivables and British £ restricted cash balances. $1.2 million of accumulated foreign exchange losses were recognized during the year.

As a result of lower margins, re-structuring costs, and foreign exchange expense, the loss for the year increased to $7.0 million or $0.18 per share as compared to a loss of $3.8 million or $0.10 per share in the prior year.

Intrinsyc ended the year with cash and cash equivalents of $6.7 million as compared to $9.2 million at the end of 2002. Operating activities generated an outflow of $7.5 million offset by an inflow of $5.4 million due to the successful re-negotiation of certain terms and guarantees related to the acquisition of Intrinsyc Europe Ltd. ("IEL") (formerly NMI Electronics Ltd.) in June of 2002.

RESULTS OF OPERATIONS

For the fiscal year ended August 31, 2003, Intrinsyc recognized revenue of $13.9 million, a decrease of 2.1% from the previous year's revenues of $14.2 million. Licensing comprised 26% of the revenue compared to 38% of revenue in 2002. Services accounted for 55% of revenue compared to 46% in 2002. Product sales were 19% of revenue compared to 16% in the prior year. As a result of this revenue mix as well as the write off of excess and obsolete inventory, gross margin on sales decreased to 35% as compared to 50% in 2002. There were no significant customers in the year.

The net loss for the year ended August 31, 2003, was $7.0 million or $0.18 per share, compared with a loss of $3.8 million or $0.10 per share in fiscal 2002.

General and administration expenses increased slightly to $2.4 million in 2003 from $2.2 million in 2002 as a result of the addition of IEL overheads for a full year compared to 2 months of post acquisition expenses in the prior year.

Marketing and sales expenses were $4.2 million in the year, a decrease of 16 percent or $0.8 million compared to fiscal 2002. The decrease is predominantly attributable to a reduction in the direct sales force and a move to foster indirect sales channels made as part of the management change and re-structuring which occurred in April of 2003.

Research and development expenses decreased slightly to $3.7 million compared to $3.9 million in 2002. This decrease in costs was related to the review of product lines and technology strategy made by management during 2003. As part of an investment agreement with Technology Partnerships Canada the Company received funding of $1.3 million based on its research and development efforts.

Amortization expense of $1.3 million was down significantly from the expense of $1.5 million in 2002. In accordance with GAAP the Company no longer amortizes goodwill which accounts for the year over year decrease.

Restructuring costs of $712,393 were incurred in the year, primarily as severance to former employees. No re-structuring costs were incurred in 2002.

Foreign exchange losses for the year ended August 31, 2003, were $1.2 million as compared to a gain of $226,009 in 2002. The losses in the year were primarily related to the impact of a rapidly strengthening Canadian dollar on US$ and UK £ denominated assets.

Liquidity and Capital Resources

As at August 31, 2003, Intrinsyc's cash, cash equivalents and short term investment position was $6.7 million with a net working capital of $8.8 million. During the year the company used $7.5 million in operating activities and generated $5.1 million through the re-negotiation of the cash restrictions associated with the IEL acquisition of 2002.

As part of the acquisition of IEL, guaranteed loan notes of $2.0 million were outstanding as at August 31, 2003, supported by a restricted cash amount of $2.2 million. Shares valued at $1.2 million were issued during the year with additional shares with a value of $399,560 to be issued at market price in 2005. Additional consideration of up to $3.9 million in cash and shares is contingently payable in 2004 and 2005 depending on the achievement of certain revenue targets.

The Company continues to have no long-term liabilities or bank debt.

Risks and Uncertainties

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

Managing Rapid Growth

Intrinsyc's growth continues to strain the management systems and resources of the Company. Intrinsyc will continue to invest in systems, procedures and controls as necessary to accommodate the requirements of the business.

Large Software Orders

Intrinsyc maintains a diverse portfolio of products and services including enterprise software. The quarterly revenues and margins of the Company may fluctuate significantly depending on the mix of products delivered which in turn may be dependent on individual customer 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 benefits and compensation structure to ensure that the Company remains an attractive employer and maintains an exciting and challenging work environment.

Competition

The embedded computing market will continue to attract substantial competition and innovation. Intrinsyc will continue to invest in new products, markets and intellectual property to enhance the competitiveness of our solutions.

Uncertain Economy

The economy in general, and the technology economy specifically, continue to be unpredictable in the short term. Intrinsyc believes that the embedded computing market and smart handheld device market have a significant momentum which will withstand the current economic climate without sustaining any long term detrimental effects.

Outlook

In 2003 Intrinsyc reviewed and re-structured its operations, personnel, markets, customers and strategic vision. The Company took significant steps to conserve cash, maintain liquidity and ensure the continuing investment in high potential, next generation technologies.

For fiscal 2004 we believe the market for specialized devices and connected solutions will continue to evolve and expand. We are confident that the current strategic direction of the company, as well as our strong suite of partners and alliances, have well positioned us to capitalize on the many opportunities we expect this growing market to present. We have reduced our cost structure significantly and have a high degree of confidence in our new business model and technology vision.

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

Management Report

The consolidated financial statements contained in this annual report have been prepared by management in accordance with Canadian generally accepted accounting principles. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. Some of the assets and liabilities include amounts which are based on estimates and judgements as their final determination is dependent on future events.

The Board of Directors is responsible for ensuring that management fulfills its responsiblities for financial reporting and internal control and exercises this responsibility through the Audit Committee. The Audit Committee consists of a majority of directors who are not involved in the daily operations of the Company. The functions of the committee are to: review the system of internal controls; review any relevant accounting, financial and regulatory matters; and recommend the appointment of external auditors. The Audit Committee meets on a regular basis with management and the auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of our system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are presented fairly and in accordance with Canadian generally accepted accounting principles. The external auditors have full access to management and the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

Derek Spratt
President and CEO

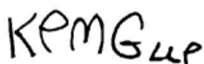
Chuck Leighton
Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Intrinsyc Software International, Inc. (formerly Intrinsyc Software, Inc.) as at August 31, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, Canada
October 3, 2003

Consolidated Balance Sheets

August 31, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,656,513**	$ 9,226,932
Funds held in trust (note 4(b))	**461,438**	517,700
Restricted cash (note 4(a))	**2,247,933**	-
Accounts receivable	**3,332,946**	5,159,369
Other receivable (note 10(b))	**960,282**	1,256,418
Inventory	**629,931**	753,155
Prepaid expenses	**156,215**	263,609
	14,445,258	17,177,183
Funds held in trust (note 4(b))	**-**	520,461
Restricted cash (note 4(a))	**-**	5,132,238
Capital assets (note 5)	**1,188,418**	1,472,962
Goodwill (note 6(a))	**11,671,498**	6,784,821
Other assets (note 6(b))	**1,668,786**	2,384,122
	$ 28,973,960	$ 33,471,787
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 2,287,062**	$ 3,428,276
Deferred revenue	**459,803**	439,050
Future income taxes (note 9)	**144,600**	179,600
Guaranteed loan note (note 4(a))	**1,983,661**	-
Loan note (note 4(a))	**804,271**	-
	5,679,397	4,046,926
Future income taxes (note 9)	**356,033**	535,633
Shareholders' equity:		
Share capital (note 8(b))	**49,512,683**	48,697,555
Share purchase warrants (note 8(d))	**140,000**	140,000
Shares to be issued (note 4(a))	**399,560**	-
Cumulative translation adjustment	**(88,855)**	28,910
Deficit	**(27,024,858)**	(19,977,237)
	22,938,530	28,889,228
	$ 28,973,960	$ 33,471,787

Commitments and contingencies (notes 4 and 10)
Subsequent event (note 14)
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Derek Spratt
Director, President and CEO

Robert Gayton
Director

Consolidated Statements of Operations and Deficit

Years ended August 31, 2003 and 2002

	2003	2002
Revenues (note 12(b))	**$ 13,879,023**	$ 14,175,201
Cost of sales	**9,082,426**	7,061,063
	4,796,597	7,114,138
Expenses:		
Administration	**2,408,045**	2,241,754
Marketing and sales	**4,218,864**	5,038,000
Research and development	**3,659,959**	3,877,304
Amortization	**1,288,863**	1,532,960
Restructuring costs (note 13)	**712,393**	-
Less: Technology Partnerships Canada Funding Investment (note 10(b))	**(1,327,675)**	(1,256,418)
	10,960,449	11,433,600
Loss before other earnings (expense) and income taxes	**6,163,852**	4,319,462
Other expense (earnings):		
Foreign exchange loss (gain) (note 11)	**1,158,692**	(226,009)
Interest income	**(255,105)**	(388,876)
	903,587	(614,885)
Loss before income taxes	**7,067,439**	3,704,577
Income tax expense (recovery) (note 9):		
Current	**194,782**	206,144
Future	**(214,600)**	(135,767)
	(19,818)	70,377
Loss for the year	**7,047,621**	3,774,954
Deficit, beginning of year	**19,977,237**	16,202,283
Deficit, end of year	**$ 27,024,858**	$ 19,977,237
Loss per share	**$ 0.18**	$ 0.10
Weighted average number of shares outstanding	**38,403,770**	36,340,884

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended August 31, 2003 and 2002

	2003	2002
Cash provided by (used in):		
Operating activities:		
Loss for the year	**$ (7,047,621)**	$ (3,774,954)
Items not involving cash:		
Amortization	**1,288,863**	1,532,960
Foreign exchange	**(117,766)**	22,454
Future income taxes	**(214,600)**	(135,767)
Changes in non-cash operating working capital:		
Funds held in trust (current) (note 4(b))	**56,262**	-
Restricted cash (current) (note 4(a))	**(2,247,933)**	-
Accounts receivable	**1,826,422**	(2,862,008)
Other receivable	**296,136**	(1,256,418)
Inventory	**123,224**	(106,990)
Prepaid expenses	**107,394**	95,114
Accounts payable and accrued liabilities	**(1,631,426)**	(45,626)
Deferred revenue	**20,753**	(669,651)
	(7,540,292)	(7,200,886)
Investing activities:		
Funds held in trust (long-term) (note 4(b))	**520,461**	515,284
Restricted cash (long-term) (note 4(a))	**5,132,238**	(5,132,238)
Purchase of fixed assets	**(288,981)**	(682,730)
Acquisition of Intrinsyc Europe Ltd. (IEL), net of $408,648 cash acquired (note 4(a))	**-**	(6,395,343)
	5,363,718	(11,695,027)
Financing activities:		
Issuance of common shares for cash:		
Special warrants, net of issue costs	**-**	9,174,434
Options	**51,590**	314,334
Warrants	**-**	3,607,005
Cash guarantee on common shares issued	**(445,435)**	-
Repayment of obligation under capital lease	**-**	(38,027)
	(393,845)	13,057,746
Decrease in cash and cash equivalents	**(2,570,419)**	(5,838,167)
Cash and cash equivalents, beginning of year	**9,226,932**	15,065,099
Cash and cash equivalents, end of year	**$ 6,656,513**	$ 9,226,932
Supplementary information:		
Interest paid	**$ 2,472**	$ -
Interest received	**270,048**	-
Income taxes paid	**56,358**	-
Non-cash investing:		
Additional consideration payable in relation to the acquisition of IEL (note 4(a))	**4,724,461**	-

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended August 31, 2003 and 2002

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 an integrated framework of embedded hardware, software and service solutions for creating, networking and managing specialized intelligent devices.

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., Linar Limited and Intrinsyc Europe 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 deposits rated R1, term 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.

(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%

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

2. Significant accounting policies (continued):

(f) Capital assets (continued):

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. Intellectual property related to software is amortized on a straight-line basis over three years and intellectual property related to hardware is amortized on a straight-line basis over seven years.

(h) 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 liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, 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. In the first step, the carrying amount of the reporting unit is compared with 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 tested this first step at September 1, 2002 and at August 31, 2003. The second step was not required to be carried out as the fair value of the reporting unit exceeded its carrying value.

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.

(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.

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.

(j) Warranty costs:

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

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

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, 2003, the Company has not recorded any such impairment losses.

(m) 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.

(n) Stock-based compensation:

The Company accounts for all stock-based payments to non-employees, and employee awards that are direct awards of stock, granted on or after September 1, 2002, using the fair value based method. The Company has granted no such awards during the periods presented. The Company uses the settlement method to account for all other stock-based employee compensation awards. Consideration paid by employees on the exercise of stock options is recorded as share capital. The Company discloses the pro forma effect of accounting for these awards under the fair value based method (see note 7).

(o) 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.

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

2. Significant accounting policies (continued):

(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 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.

(q) Comparative figures:

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

3. Changes in accounting policies:

(a) Goodwill and other intangible assets:

In August 2001, the Accounting Standards Board of the CICA issued Handbook Section 3062, Goodwill and Other Intangible Assets. Under Section 3062, goodwill and other intangible assets having indefinite lives are not amortized and are tested for impairment at least annually. Intangible assets with definite lives are amortized over their estimated useful lives. The transitional requirements of Section 3062 required the Company to have assessed by February 28, 2003 whether there was an indication that goodwill was impaired at September 1, 2002. The Company identified one reporting unit and determined the fair value of the reporting unit and compared it to its carrying value. As the fair value of the reporting unit exceeded its carrying value at September 1, 2002, there was no indication of goodwill impairment at that date.

The Company has adopted Section 3062 effective September 1, 2002. As of the date of adoption, the Company had unamortized goodwill in the amount of $6,784,821, which is no longer being amortized. This change in accounting policy resulted in a reduction in amortization expense related to goodwill of $637,286 for the year ended August 31, 2002. In accordance with the requirements of Section 3062, this change in accounting policy is not applied retroactively and the amounts presented for prior periods have not been restated for this change. The earnings and earnings per share before amortization of goodwill for all periods presented are as follows:

	2003	2002
Loss for the year	**$ 7,047,621**	$ 3,774,954
Amortization of goodwill	**-**	637,286
Loss before amortization of goodwill	**$ 7,047,621**	$ 3,134,668
Loss per share:		
Before amortization of goodwill	**$ 0.18**	$ 0.09

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

3. Changes in accounting policies (continued):

(b) Stock based compensation plans:

In December 2001, the Accounting Standards Board of the CICA issued Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. Section 3870 is effective for stock-based compensation issued by the Company on or after September 1, 2002, and is not required to be applied retroactively. The Company is not required to record compensation expense for stock-based compensation awards granted to employees, except for employee awards that are direct awards of stock, call for settlement in cash or other assets, or that call for settlement by the issuance of equity instruments. The adoption of the new standard has had no impact on the figures presented.

4. Acquisitions:

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

Cash	$	408,648
Current assets		1,124,627
Fixed assets		123,096
Intellectual property		1,870,000
Current liabilities		(790,803)
Future income tax liability		(561,000)
Goodwill		4,629,423
	$	6,803,991
Consideration:		
Cash of £2,769,869	$	6,411,693
Expenses		392,298
	$	6,803,991

The original purchase agreement contained provisions for additional consideration subject to the achievement of certain performance targets during each of the 12 month periods ended June 26, 2003 and 2004. During the year, the Company entered into discussions with the vendors to amend the original agreements, and the parties consummated an amendment for the additional consideration related to the 12 month periods ending June 26, 2003 and 2004.

The performance criteria for the 12 month period ended June 26, 2003, specified in the amended agreement, were achieved, and, consequently, additional consideration of $4,724,461 was due and payable and has been recorded as additional goodwill for the twelve months ended August 31, 2003. The $4,724,461 is payable as follows: shares with a fair value at the date of issuance of $1,608,533, of which shares with a value of

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

4. Acquisitions (continued):

(a) Intrinsyc Europe Ltd. (continued):

$1,208,973 were issued on June 26, 2003 and the remainder of shares with a value of $399,560 will be issued on May 31, 2005, $2,311,657 (£1,028,500) of guaranteed loan notes, and a $804,271 loan note, both repayable on demand after November 30, 2003. During the year, $327,996 was paid out in relation to the guaranteed loan notes. Restricted cash is held to guarantee the ability of the Company to meet the guaranteed loan note obligation, while the Company has entered into a general security agreement with the vendors to provide security on all future obligations related to the purchase agreement, as amended.

Additional consideration of up to $3,910,228 is contingently payable or issuable upon the achievement of certain revenue targets during the 12 months ended June 26, 2004. The $3,910,228 is payable as follows: common shares having a fair value of $2,412,800 at June 26, 2004, common shares having a fair value of $641,703 (£293,834) at May 31, 2005, $641,703 (£293,834) of loan notes, $107,011 (£49,000) payable in cash on May 31, 2004, and $107,011 (£49,000) payable in cash May 31, 2005.

(b) Linar Limited:

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

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. Consideration of $445,435 relating to this floor price cash guarantee was paid during the year. The consideration paid has been recorded as a reduction in the assigned value of shares previously issued. The amount recognized as the purchase price, and therefore, goodwill, did not change.

Cash payments of up to US$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 US$333,000 ($515,284) was paid in 2002 as the performance criteria was achieved. The second payment of US$333,000 ($517,700) was paid during the year as the performance criteria was achieved. The remaining balance of US$334,000 ($461,438), which is held in trust, will be due January 26, 2004 if performance criteria are 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. During the year, the specified criteria have been met and the warrants are to be issued.

5. Capital assets:

2003	Cost	Accumulated amortization	Net book value
Computers and equipment	$ 1,546,912	$ 1,007,132	$ 539,780
Computer software	731,601	503,062	228,539
Furniture and fixtures	705,333	440,813	264,520
Leasehold improvements	283,401	127,822	155,579
	$ 3,267,247	$ 2,078,829	$ 1,188,418

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

5. Capital assets (continued):

2002	Cost	Accumulated amortization	Net book value
Computers and equipment	$ 1,358,823	$ 740,789	$ 618,034
Computer software	782,699	440,927	341,772
Furniture and fixtures	629,573	327,110	302,463
Leasehold improvements	254,267	43,574	210,693
	$ 3,025,362	$ 1,552,400	$ 1,472,962

6. Goodwill and other assets:

(a) The changes in the carrying amount of goodwill for the year ended August 31, 2003 is as follows:

Balance, September 1, 2002	$ 6,784,821
Goodwill related to contingent consideration (note 4(a))	4,724,461
Other goodwill additions	162,216
Balance, August 31, 2003	$ 11,671,498

(b) Other assets as at August 31, 2003 are as follows:

2003	Gross carrying amount	Accumulated amortization	Total
Intellectual property	$ 3,070,000	$ 1,401,214	$ 1,668,786

2002	Gross carrying amount	Accumulated amortization	Total
Intellectual property	$ 3,070,000	$ 685,878	$ 2,384,122

There have been no additions of intangible assets for the periods presented. The aggregate amortization expense for the year ended August 31, 2003 was $715,336.

7. Stock-based compensation:

No compensation expense has been recognized for the Company’s fixed stock option plan. Had compensation expense for the Company's stock options granted on or after September 1, 2002 been determined based on the fair value at

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

7. Stock-based compensation (continued):

the applicable grant dates, the Company's loss would have been increased to the pro forma amount indicated below.

Loss:	
As reported	$ 7,047,621
Pro forma	7,496,825
Loss per common share	0.20

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.07%, dividend yield of 0%, expected life of 2.62 years, and volatility of 145.19%.

8. Share capital:

(a) Authorized:
Unlimited number of common shares without par value; and
Unlimited number of preference shares without par value.

(b) Issued:

	Number of shares	Amount
Outstanding, August 31, 2001	32,333,599	$ 35,601,782
Shares issued for cash on:		
Exercise of warrants	1,462,500	3,607,005
Exercise of options	254,166	314,334
Exercise of special warrants (note 8(e))	4,166,700	9,174,434
Outstanding, August 31, 2002	38,216,965	48,697,555
Shares issued for cash on:		
Exercise of options	67,000	51,590
Shares issued in connection with the acquisition of IEL (note 4(a))	2,572,283	1,208,973
Share price guarantee (note 4(b))	-	(445,435)
Outstanding, August 31, 2003	40,856,248	$ 49,512,683

(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 on or after May 11, 1999 and before April 5, 2001

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

8. Share capital (continued):

(c) Share option plan (continued):

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 11,095,774 options for issuance under its employee share option plan of which 4,939,007 have been granted and are outstanding as at August 31, 2003.

A summary of the Company's share option activity for the years ended August 31, 2003 and 2002, is as follows:

	Outstanding options	
	Number of shares	Weighted average exercise price
Outstanding, August 31, 2001	3,797,691	$ 2.44
Options granted	1,209,550	2.10
Options exercised	(254,166)	1.24
Options cancelled	(281,238)	3.01
Outstanding, August 31, 2002	4,471,837	2.26
Options granted	1,979,475	1.07
Options exercised	(67,000)	0.77
Options cancelled	(1,445,305)	1.32
Outstanding, August 31, 2003	4,939,007	$ 1.81

The following table summarizes the share options outstanding at August 31, 2003:

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 - $ 1.21	2,448,842	3.84 years	$1.09	830,455	$1.19
$ 1.26 - $ 2.97	1,786,435	1.94 years	2.05	1,525,414	2.08
$ 3.01 - $ 5.30	703,730	2.34 years	3.72	587,893	3.76
	4,939,007	2.94 years	$1.81	2,943,762	$2.16

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

8. Share capital (continued):

(c) Share option plan (continued):

During the year, the Company re-priced 787,428 stock options with exercise prices ranging from $1.20 - $5.30 to $1.18. None of these options were held by Officers or Directors of the Company. The options have been included in the calculation of compensation expense in note 7.

(d) Share purchase warrants:

A summary of the Company's share purchase warrants for the years ended August 31, 2003 and 2002 is as follows:

	Outstanding warrants	
	Number of warrants	Weighted average warrant price
Outstanding, August 31, 2001	3,375,000	$ 4.17
Warrants granted	441,669	2.60
Warrants exercised	(1,462,500)	2.47
Warrants cancelled	(1,962,500)	5.37
Outstanding, August 31, 2002	391,669	2.79
Warrants expired	291,669	2.65
Outstanding, August 31, 2003	100,000	$ 3.20

The share purchase warrants outstanding at August 31, 2003 consist of 100,000 warrants issued by the Company on January 26, 2001 as part of the acquisition of Linar Limited. Each warrant is exercisable into one common share at $3.20 per share to January 26, 2006. These warrants were recorded at their fair value on the date of issuance of $140,000 and were included as part of the acquisition consideration.

(e) Special warrants:

In the prior year, the Company completed a private placement of 4,166,700 special warrants at $2.40 per special warrant, for gross proceeds of $10,000,080, net of share issue costs of $825,646. Each special warrant entitled the holder to acquire, without payment of any additional consideration, one common share of the Company. On June 3, 2002, the 4,166,700 special warrants were automatically exercised for 4,166,700 common shares. The Company also granted to the agent an agent's warrant to acquire, without additional consideration, an agent's compensation option. The option entitled the agent to purchase 291,669 special warrants at $2.65 per special warrant until July 29, 2003. These warrants expired during the current year and have been cancelled.

9. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 38.3% (2002 - 41.3%) to income before income taxes due to the following:

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

9. Income taxes (continued):

	2003	2002
Combined Canadian federal and provincial income taxes at expected rate	**$ (2,706,829)**	$ (1,529,990)
Losses not tax effected	**2,446,602**	1,621,199
Foreign income taxed at different rates	**45,300**	(96,200)
Difference between current and future tax rates	**227,400**	-
Canadian current tax recovery booked	**(24,920)**	-
Permanent and other	**(7,371)**	75,368
	$ (19,818)	$ 70,377

The composition of the Company's future tax assets at August 31, 2003 and 2002 is as follows:

	2003	2002
Future income tax assets:		
Capital assets	**$ 917,000**	$ 729,000
Loss carry forwards	**7,351,000**	5,547,000
Share issue costs	**373,000**	554,000
Other	**1,285,000**	882,000
	9,926,000	7,712,000
Valuation allowance	**(9,926,000)**	(7,712,000)
Future income tax liability:		
Intellectual property	**(500,633)**	(715,233)
Net future income tax liability	**(500,633)**	(715,233)
Current future income tax liability	**(144,600)**	(179,600)
Non-current future income tax liability	**$ 356,033**	$ 535,633

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, 2003, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately $20,400,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

9. Income taxes (continued):

2004	$ 1,900,000
2005	3,200,000
2006	1,600,000
2007	2,200,000
2008	2,200,000
2009	3,600,000
2010	5,700,000
	$ 20,400,000

10. Commitments and contingencies:

(a) 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:

2004	$ 761,362
2005	688,308
2006	190,838
2007	47,244
2008	-
	$ 1,687,752

(b) Under an agreement with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company is eligible to receive conditionally repayable research and development funding amounting up to $6,371,351 to support the development of embedded devices and wired and wireless internet-enabled network connectivity. During the year ended August 31, 2003, the Company has claimed $1,327,675, which has been recorded as a reduction of expenses. The amount recorded is net of a 15% commission that is payable to a consultant for services performed in securing the funding. Under the terms of the agreement, an amount up to a maximum of $13,278,000 is to be repaid by royalties on annual sales, in excess of certain revenue thresholds of specified products, commencing in 2003 through to 2011.

11. Financial instruments and risk management:

(a) Fair values:

The carrying amounts of cash and cash equivalents, funds held in trust, restricted cash, accounts receivable, other receivable and accounts payable and accrued liabilities approximate fair values due to their short maturities.

(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.

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

11. Financial instruments and risk management (continued):

(b) Credit and foreign currency risk (continued):

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 US 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 US dollars.

12. 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:

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

	2003	2002
United States	**$ 6,950,726**	$ 10,092,246
Canada	**567,277**	377,698
Europe	**4,963,854**	2,283,639
Other	**1,397,166**	1,421,618
	$ 13,879,023	$ 14,175,201

(c) Significant customers:

There were no customers accounting for more than 10% of sales for the years ended August 31, 2003 or August 31, 2002.

13. Restructuring costs:

On April 30, 2003, the Company announced and implemented a business restructuring through a workforce reduction. The Company has substantially completed the implementation of the restructuring at August 31, 2003.

Workforce reduction charges of $717,871 were related to the cost of severance and benefits associated with 22 employees notified of termination. Statements of claim have been filed with respect to certain of these terminations. However, management has recorded their best estimate of the potential liability and does not believe that the actual amounts will vary significantly from the estimates.

Notes to Consolidated Financial Statements continued
Years ended August 31, 2003 and 2002

13. Restructuring costs (continued):

Other charges include provision for professional and other fees in connection with the restructuring activities. The following table summarizes the activity related to the restructuring and other charges at August 31, 2003.

	Charge at April 30, 2003	Additions to provision	Cumulative drawdowns Cash	Cumulative drawdowns Non-cash	Provision balance August 31, 2003
Workforce reduction	$ 717,871	$ -	$ (579,974)	$ (70,773)	$ 67,124
Other	27,258	38,037	(65,295)	-	-
	$ 745,129	$ 38,037	$ (645,269)	$ (70,773)	$ 67,124

14. Subsequent event:

On September 9, 2003, the Company acquired all the assets, expenses, customer leads, and a strategic alliance contract of Consequent Technologies Inc. The negotiated purchase price of the transaction was $330,000. The Company and the acquired company are related parties by virtue of common management.

Left to right: David Manuel, Kerry Lynn, Derek Spratt, Chuck Leighton, Vincent Schiralli

Corporate Information

Board of Directors

Derek Spratt, Director
Vincent Schiralli, Director
Robert Gayton, Director
Moiz Beguwala, Director
George Duguay, Director

Officers of the Company & Management Team

Derek Spratt,
President & Chief Executive Officer

Vincent Schiralli,
Chief Operating Officer

Chuck Leighton
Chief Financial Officer

David Manuel
Vice President, Engineering

Alan Scott
Vice President, Intrinsyc Europe

Kerry Lynn
Director, Sales

Auditor

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