Consolidated Financial Statements

Intrinsyc Software International, Inc.

August 31, 2005

AUDITORS' REPORT

To the Shareholders of
Intrinsyc Software International, Inc.

We have audited the consolidated balance sheets of **Intrinsyc Software International, Inc.** as at August 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit(s).

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
October 7, 2005.

Chartered Accountants

Intrinsyc Software International, Inc.

CONSOLIDATED BALANCE SHEETS

As at August 31

	2005 $	2004 $ *Restated* *[note 21]*
ASSETS		
Current		
Cash and cash equivalents *[note 2 and 5]*	**7,318,210**	4,600,460
Accounts receivable *[notes 6 and 18]*	**3,909,596**	3,381,271
Other receivable *[note 14]*	**-**	947,374
Inventory	**134,318**	277,840
Prepaid expenses	**345,762**	334,780
Total current assets	**11,707,886**	9,541,725
Capital assets *[note 8 and 18]*	**980,580**	838,268
Goodwill *[note 9[a]]*	**14,189,478**	14,189,478
Intangible assets *[note 9[b]]*	**1,212,577**	1,442,848
Total assets	**28,090,521**	26,012,319
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**2,790,071**	1,902,038
Taxes Payable	**263,382**	129,742
Deferred revenue	**836,660**	645,820
Total current liabilities	**3,890,113**	2,677,600
Future income taxes *[note 13]*	**261,425**	356,033
Total liabilities	**4,151,538**	3,033,633
Commitments and contingencies *[notes 14 and 15]*		
Shareholders' equity		
Share capital *[note 11]*	**57,452,141**	52,328,077
Share purchase warrants *[note 11]*	**163,500**	163,500
Contributed surplus *[notes 3 and 12]*	**1,896,760**	1,080,546
Cumulative translation adjustment	**(27,792)**	(27,792)
Deficit	**(35,545,626)**	(30,565,645)
Total shareholders' equity	**23,938,983**	22,978,686
Total liabilities and shareholders' equity	**28,090,521**	26,012,319

See accompanying notes to consolidated financial statements

On behalf of the Board:

Director Director

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Year ended August 31

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

See accompanying notes to consolidated financial statements

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended August 31

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

See accompanying notes to consolidated financial statements

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005 & 2004

1. ORGANIZATION

The Company was incorporated on August 31, 1992 under the laws of Alberta and continued under the Company Act (British Columbia) on July 19, 1995. Articles of Continuance were filed under the Canada Business Corporations Act on May 1, 2003 to continue the Company federally and change the name of the Company from Intrinsyc Software, Inc. to Intrinsyc Software International, Inc. The Company provides embedded hardware and software and services solutions for creating, networking and managing specialized intelligent devices.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

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

Use of estimates

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

Cash Equivalents

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005 & 2004

2. SIGNIFICANT ACCOUNTING POLICIES (cont'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.

Allowance for doubtful accounts

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

Research and development

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

Capital assets

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

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

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

Leases

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Intellectual property and other intangible assets

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

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

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

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

Goodwill

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

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

The second step has not been required, but would be carried out if the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit's goodwill is determined in the same manner as

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

the value of goodwill is determined in a business combination described in the first paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the earnings statement before extraordinary items and discontinued operations.

Revenue recognition

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

Unbilled Revenue

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

Derivative Financial Instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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

Warranty costs

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

Share issue costs

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

Impairment of capital assets

The Company monitors the recoverability of capital assets, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when the Company determines that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to the undiscounted future cash flows. As at August 31, 2005, the Company has not recorded any such impairment losses.

Translation of foreign currencies

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

Foreign operations that are considered self-sustaining (financially and operationally independent of the parent) are translated to Canadian dollars using the current rates of exchange for assets and

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of shareholders' equity ("Cumulative translation adjustment") until there is a realized reduction in the parent's net investment in the foreign operation.

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

Loss per share

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

Income taxes

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

3. CHANGE IN ACCOUNTING POLICY

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

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

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

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

3. CHANGE IN ACCOUNTING POLICY (cont'd.)

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

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

Translation of foreign currencies

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

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

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

4. OPERATING LINE OF CREDIT

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

5. CASH AND CASH EQUIVALENTS

	2005 $	2004 $
Cash	**2,309,178**	4,600,460
Short term deposit	**5,009,032**	-
	7,318,210	**4,600,460**

6. ACCOUNTS RECEIVABLE

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

7. ACQUISITIONS

[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 purchase agreement contains provisions for additional consideration subject to the achievement of certain performance targets during each of the 12 month periods ended May 31, 2003 and 2004.

7. ACQUISITIONS (cont'd.)

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

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

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

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

[b] Linar Ltd.

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

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

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

7. ACQUISITIONS (cont'd.)

[c] Consequent Technologies, Inc.

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

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

8. CAPITAL ASSETS

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

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

9. GOODWILL AND OTHER INTANGIBLE ASSETS

[a] The changes in the carrying amount of goodwill for the years ended August 31, 2004 is as follows:

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

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

[b] Other intangible assets as at August 31, 2005 and 2004 were as follows:

	Gross carrying amount $	**Accumulated amortization** $	**Total** $
2005			
Intellectual property	3,333,679	2,198,550	1,138,129
Other intangible assets *[note 7[c]]*	274,080	199,632	74,448
	3,610,759	2,398,182	1,212,577
2004			
Intellectual property	3,151,804	1,883,220	1,268,584
Other intangible assets *[note 7[c]]*	274,080	99,816	174,264
	3,425,884	1,983,036	1,442,848

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

10. EMPLOYEE PENSION CONTRIBUTIONS

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

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

11. SHARE CAPITAL

Authorized

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

Issued

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

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

11. SHARE CAPITAL (cont'd.)

Share option plan

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

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

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

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

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

11. SHARE CAPITAL (cont'd.)

Share purchase warrants

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

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

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

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

12. CONTRIBUTED SURPLUS

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

13. INCOME TAXES

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

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

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

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

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

13. INCOME TAXES (cont'd.)

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

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

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

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

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

14. GOVERNMENT ASSISTANCE

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

14. GOVERNMENT ASSISTANCE (cont'd.)

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

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

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

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

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

14. GOVERNMENT ASSISTANCE (cont'd.)

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

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

The ongoing audits of the TPC program are complete and the company is currently reviewing the results of the audit and negotiating an extension of its TPC agreement. If the extension is granted by TPC and the Company accepts the extension, the Company will be required to pay approximately $387,000 and the original terms and conditions will be amended. If the company does not accept the extension, the Company is not obligated to pay $387,000. The outcome of these negotiations is not known or determinable at this time. Any impact on the Company will be recorded in the financial statements once the amount becomes known. If the Company is found to be in default of its agreement with TPC, TPC can suspend or terminate any obligation and it can demand repayment of all or part of the contributions disbursed to the Company. To date the Company has received approximately $3.8 million in contributions and paid approximately $5,000 in royalties.

15. COMMITMENTS AND CONTINGENCIES

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

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

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

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

Credit and foreign currency risk

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

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. Management is of the opinion that any risk of accounting loss is significantly reduced due to the financial strength of the Company's major customers. The

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

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

17. DERIVATIVE FINANCIAL INSTRUMENTS/FOREIGN EXCHANGE CONTRACTS

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

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

18. SEGMENTED INFORMATION

Operating segments

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

Geographic information

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

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

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

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

18. SEGMENTED INFORMATION (cont'd.)

The Company earned revenue in the following groups:

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

Significant customers

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

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

19. RESTRUCTURING AND OTHER COSTS

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

20. SUBSEQUENT EVENT

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

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

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

21. COMPARATIVE FIGURES

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