

PsiNaptic Inc. ("PsiNaptic" or "the Company") is in the business of developing and marketing proprietary technology, including software and wireless communication technologies, which allow user transparent transfer of information and services between computing objects, devices and processors in a communications rich, network environment. Management's vision is a world with pervasive unlimited networks of intelligent objects interacting dynamically and seamlessly, on behalf of people, to improve the delivery of existing services and enable new innovative applications.

The Company is in pre-revenue status. All start-up costs have been expensed and research and development costs have not been capitalized. The Company has no long-term debt. The Company has not been profitable since its inception and expects to incur losses in continuing the research and development of its products. PsiNaptic's resources are now targeted at the marketing and sales of its products and engineering services. The Company is planning to take advantage of growth opportunities in the rapidly evolving mobile and embedded market space. The Company's focus is on securing purchase commitments from prospective customers.

TO THE SHAREHOLDERS

We are pleased to present the financial and operating results of PsiNaptic for the six months and three months ended March 31, 2004 and 2003.

Early in our second fiscal quarter, we closed on an initial public offering (5 million shares at \$0.25 per share for gross proceeds of \$1,250,000) and commenced trading on the TSX Venture Exchange under the symbol PST on January 28, 2004. After the closing of our initial public offering, the Company has 18,906,812 common shares issued and outstanding.

This renewed capitalization will support our operations for the next nine months as we move forward to secure the commercialization of our products. To that end, we increased our sales and marketing activities in an effort to secure new licensing agreements. We are pleased with our progress to date as we continue to meet the milestones outlined in our prospectus dated January 6, 2004.

Thank you for your interest and continued support.



Aaron Dagan
President and Chief Executive Officer
April 29, 2004

Management's Discussion and Analysis of Results of Operations and Financial Condition

This management's discussion and analysis of results of operations and financial condition of PsiNaptic should be read in conjunction with the audited financial statements of PsiNaptic for the year ended September 30, 2003. The interim financial statements for the six months and three months ended March 31, 2004 were prepared in accordance with Canadian generally accepted accounting principles.

COMPARISON OF THE SIX MONTHS ENDED MARCH 31, 2004 AND 2003

Highlights

The Company has achieved the first two milestones set out in the prospectus January 6, 2004.

We continue to make positive progress towards signing a formal partnership agreement with a major designer, manufacturer, and marketer of mixed-signal, specialty semi-conductors.

Results of Operations

An operating loss of \$399,788 was incurred in the six months ended March 31, 2004, which compares to an operating loss of \$185,658 in the six months ended March 31, 2003. The net loss, after expense recoveries and interest, increased to \$355,943 for the six months ended March 31, 2004 from a net loss of \$185,639 for the six months ended March 31, 2003.

Operating Expenses

Total operating expenses increased to \$399,788 in the six months ended March 31, 2004 from \$185,658 in the six months ended March 31, 2003. Salaries (including consultants) and benefits were \$267,285 in the six months ended March 31, 2004 compared to \$78,897 in the six months ended March 31, 2003. This increase reflects the addition of personnel and recommencement of salaries. Other general and administrative costs increased to \$78,290 in the six months ended March 31, 2004 from \$72,316 in the six months ended March 31, 2003.

Other marketing expenses increased to \$32,686 in the six months ended March 31, 2004 from \$13,804 in the six months ended March 31, 2003.

Recoveries and Other Income

Net interest income of \$4,420 was earned in the six months ended March 31, 2004 compared to \$19 in the six months ended March 31, 2003.

The Company recorded an IRAP grant of \$39,425 earned in the six months ended March 31, 2004. This project is scheduled to be completed in the third quarter of fiscal 2004.

Financial Condition and Liquidity

Funds used in operations were \$330,386 in the six months ended March 31, 2004, compared to \$81,476 in the six months ended March 31, 2003.

Financing activities during the six months ended March 31, 2004 resulted in gross proceeds of \$1,300,000 of which \$1,250,000 were received from the initial public offering (IPO) of 5 million Class A common shares at \$0.25 each. Net proceeds of the IPO, after financing costs of \$353,252 were \$896,748. In the six months ended March 31, 2003 the Company received Shareholders' loans of \$74,419.

Investing activities during the six months ended March 31, 2004 consisted of the investment of funds from the proceeds of the initial public offering in excess of its immediate needs.

Also during the six months ended March 31, 2004, the Company expended \$1,026 related to the protection of its intellectual property.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

Highlights

During the second quarter, the Company completed the integration of JMatos® with a Bluetooth® enabled cellular phone. In addition, phase one of the integration of CMatos with one Bluetooth manufacturer was also completed.

Results of Operations

An operating loss of \$234,853 was incurred in the quarter ended March 31, 2004, which compares to an operating loss of \$93,912 in the quarter ended March 31, 2003. The net loss, after expense recoveries and interest, increased to \$211,401 for the quarter ended March 31, 2004 from a net loss of \$93,912 for the quarter ended March 31, 2003.

Operating Expenses

Total operating expenses increased to \$234,853 in the quarter ended March 31, 2004 from \$93,912 in the quarter ended March 31, 2003. Salaries (including consultants) and benefits were \$159,854 in the quarter ended March 31, 2004 compared to \$44,295 in the quarter ended March 31, 2003. This increase reflects an increase in the staff complement and the resumption by the Company of paying salaries. Other general and administrative costs increased to \$49,081 in the quarter ended March 31, 2004 from \$38,253 in the quarter ended March 31, 2003, primarily due to costs of investor relations and the first public annual general meeting of the Company held in March 2004.

Due to increased travel expenses, other marketing expenses increased to \$16,791 in the quarter ended March 31, 2004 from \$900 in the quarter ended March 31, 2003.

Recoveries and Other Income

Net interest income of \$3,925 was earned in the quarter ended March 31, 2004 compared to nil in the quarter ended March 31, 2003.

The Company recorded an IRAP grant of \$19,527 earned in the quarter ended March 31, 2004.

Financial Condition and Liquidity

Funds used in operations were \$236,030 in the quarter ended March 31, 2004, compared to \$44,872 in the quarter ended March 31, 2003.

Financing activities during the quarter ended March 31, 2004 resulted in net proceeds of \$896,748 received from the closing of the initial public offering. In the quarter ended March 31, 2003 the Company received additional Shareholders' loans of \$37,419.

Investing activities during the quarter ended March 31, 2004 consisted of the investment of funds from the proceeds of the initial public offering in excess of its immediate needs.

CASH REQUIREMENTS OUTLOOK

As a result of the successful closing of the initial public offering on January 21, 2004, the Company has sufficient cash to pursue its business plan and continue operations for the next nine months. The expenditures of the second fiscal quarter are more representative of the current operating level of the Company than that of the first quarter.

Management's Responsibility for Financial Statements

The accompanying unaudited interim financial statements and all of the information included in this second quarter report have been prepared by and are the responsibility of management and have been approved by the Audit Committee of the Board of Directors. The interim financial statements have been prepared in accordance with generally accepted accounting principles and reflect management's best estimates and judgements based on current information. The significant accounting policies which management believes are appropriate for the Company are described in Note 1 of the interim financial statements.

The Company has developed and maintains an appropriate system for internal controls in order to ensure, on a reasonable and cost-effective basis, that relevant and reliable financial information is produced.

The Audit Committee is appointed by the Board and consists of two non-management Directors and the President.

Deloitte & Touche LLP, the Company's external auditors, who were recommended by the Directors for reappointment and appointed by the shareholders of the Company, have not been asked to perform a review of the following statements as the present level of operations does not warrant such a review.



Aaron Dagan
President and Chief Executive Officer
April 29, 2004



Morris Bleviss
Chief Financial Officer

FORWARD –LOOKING STATEMENTS

The MD&A contains forward-looking statements, including the Company's expectations as to the success of its research and development programs related to JMatos® and CMatos, which involve known and unknown risks and uncertainties, which could cause the Company's actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, among others, the availability of funds and resources to successfully commercialize JMatos® and CMatos and general changes to the economic environment. Investors are cautioned against placing undue reliance on forward-looking statements. The Company does not undertake to update these forward-looking statements.

Balance Sheets

| | <i>Unaudited</i> March 31, 2004 | <i>Audited</i> September 30, 2003 |
|------------------------------------------|-------------------------------------------|--------------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | 22,752 | 161,310 |
| Short-term investments | 813,894 | — |
| Accounts receivable | 22,973 | 20,215 |
| Prepaid expenses | 15,141 | 9,100 |
| | 874,760 | 190,625 |
| Deferred financing costs | | |
| | 0 | 60,000 |
| Capital assets | 40,503 | 47,455 |
| Intellectual property | 25,296 | 35,545 |
| | 940,559 | 333,625 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 59,121 | 42,992 |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 4,055,599 | 3,108,851 |
| Deficit | (3,174,161) | (2,818,218) |
| | 881,438 | 290,633 |
| | 940,559 | 333,625 |

See accompanying notes

Statements of Loss and Deficit

(Unaudited)

| | 6 months ended March 31, 2004 | 6 months ended March 31, 2003 | 3 months ended March 31, 2004 | 3 months ended March 31, 2003 | Cumulative From Inception on Dec. 16, 1999 |
|-------------------------------------|--------------------------------------------------|----------------------------------------|--------------------------------------------------|----------------------------------------|-----------------------------------------------------|
| \$ | | | | | |
| EXPENSES | | | | | |
| Depreciation and amortization | 18,227 | 20,642 | 10,387 | 10,464 | 215,220 |
| General and administrative | 164,452 | 88,272 | 99,061 | 48,867 | 1,170,045 |
| Marketing | 125,874 | 64,286 | 65,078 | 25,900 | 965,170 |
| Research and engineering | 91,235 | 12,458 | 60,327 | 8,681 | 1,739,515 |
| | 399,788 | 185,658 | 234,853 | 93,912 | 4,089,950 |
| INCOME (LOSS) | (399,788) | (185,658) | (234,853) | (93,912) | (4,089,950) |
| OTHER INCOME | | | | | |
| IRAP expense recovery | 39,425 | | 19,527 | | 192,225 |
| Interest income | 4,420 | 19 | 3,925 | | 96,556 |
| Consulting revenue | | | | | 18,405 |
| SR&ED tax credits | | | | | 608,603 |
| | 43,845 | 19 | 23,452 | 0 | 915,789 |
| NET LOSS | (355,943) | (185,639) | (211,401) | (93,912) | (3,174,161) |
| DEFICIT, beginning of period | (2,818,218) | (2,762,859) | (2,962,760) | (2,854,586) | |
| DEFICIT, end of period | (3,174,161) | (2,948,498) | (3,174,161) | (2,948,498) | (3,174,161) |
| Loss per share | (0.0231) | (0.0154) | (0.0120) | (0.0078) | |
| Weighted average number of shares | 15,427,116 | 12,049,809 | 17,663,515 | 12,049,809 | |

See accompanying notes

Statements of Cash Flows

(Unaudited)

| | 6 months ended March 31, 2004 | 6 months ended March 31, 2003 | 3 months ended March 31, 2004 | 3 months ended March 31, 2003 |
|-------------------------------------------------|--------------------------------------------------|----------------------------------------|--------------------------------------------------|----------------------------------------|
| \$ | | | | |
| OPERATING ACTIVITIES | | | | |
| Loss for the period | (355,943) | (185,639) | (211,401) | (93,912) |
| Depreciation and amortization | 18,227 | 20,642 | 10,387 | 10,464 |
| | (337,716) | (164,997) | (201,014) | (83,448) |
| Changes in non-cash working capital: | | | | |
| Accounts receivable | (2,758) | 3,227 | (395) | 1,231 |
| Prepaid expenses | (6,041) | 9,888 | (7,199) | 5,893 |
| Accounts payable and accrued liabilities | 16,129 | 70,406 | (27,422) | 31,452 |
| | (330,386) | (81,476) | (236,030) | (44,872) |
| INVESTING ACTIVITIES | | | | |
| Redemption (Purchase) of short-term investments | (813,894) | 10,072 | (788,894) | 1,091 |
| Purchase of capital assets | 0 | 0 | 0 | 0 |
| Protection of intellectual property | (1,026) | (5,744) | (1,026) | (293) |
| | (814,920) | 4,328 | (789,920) | 798 |
| FINANCING ACTIVITIES | | | | |
| Issuance of shares | 946,748 | 0 | 896,748 | 0 |
| Deferred financing costs | 60,000 | 0 | 142,283 | 0 |
| Shareholder's loans | 0 | 74,419 | 0 | 37,419 |
| | 1,006,748 | 74,419 | 1,039,031 | 37,419 |
| CASH, PERIOD CHANGE | (138,558) | (2,729) | 13,081 | (6,655) |
| CASH, beginning of period | 161,310 | 11,299 | 9,671 | 15,225 |
| CASH, end of period | 22,752 | 8,570 | 22,752 | 8,570 |
| <i>See accompanying notes</i> | | | | |

Notes to the Financial Statements

For the Six Months ended March 31, 2004

1. BASIS OF PRESENTATION

These unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, these interim financial statements do not include all the information and notes required by Canadian generally accepted accounting principles for complete financial statements. In the opinion of management, the interim financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the financial position as at March 31, 2004 and the results of operations and the cash flows for the six months ended March 31, 2004 and 2003.

Other than as stated in the paragraph following, these interim financial statements have been prepared using the same accounting policies as the audited September 30, 2003 financial statements. The interim financial statements included herein should be read in conjunction with the Company's Annual Report for the year ended September 30, 2003.

Effective October 1, 2003 the Company has adopted the fair value based method to account for its stock based compensation plan. The fair value method establishes the standards of recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. No restatement of prior periods was required as a result of the adoption of the new standard.

2. DEFERRED FINANCING COSTS

The deferred financing costs of September 30, 2003 related to the initial public offering which closed January 21, 2004. They comprised of deposits on account of expenses with the broker agent, and fees on account of legal expenses of the Company.

3. SHARE CAPITAL

| Authorized: Unlimited number of common shares | Number of Shares | Amount \$ |
|-------------------------------------------------|---------------------|--------------|
| Issued | | |
| Common Shares | | |
| Balance, September 30, 2003 | 13,049,809 | 1,096,021 |
| Private placement at \$0.25 per share | 200,000 | 50,000 |
| Initial public offering at \$0.25 per share | 5,000,000 | 1,250,000 |
| Conversion of Special Warrants | 3,657,003 | 2,012,830 |
| Reduction in shares held by founders | (3,000,000) | — |
| Less financing costs | — | (353,252) |
| Balance, March 31, 2004 | 18,906,812 | 4,055,599 |
| Special Warrants | | |
| Balance, September 30, 2003 | — | 2,012,830 |
| Conversion upon closing initial public offering | — | (2,012,830) |
| Balance, March 31, 2004 | — | — |
| Total March 31, 2004 | 18,906,812 | 4,055,599 |

There are 800,000 common shares reserved for the exercise of Private Placement Warrants. Each Private Placement Warrant is convertible into one common share at an exercise price of \$0.35 per share for a period of two years from the date of issuance. The last closing under the Private Placement was October 16, 2003.

In conjunction with the closing on January 21, 2004 of the initial public offering, the broker acting as agent for the offering received a commission of 7% of the gross proceeds and also received a non-transferable agent's option to purchase up to 500,000 common shares at \$0.25 per common share. The agent's option will expire on January 21, 2006.

Stock Options for employees, consultants, and directors

The Company has set aside a reserve equal to 10% of the issued and outstanding common shares under a stock option plan adopted September 22, 2003.

Details of all options outstanding are as follows:

| Expiry | 2004 | | Number Exercisable |
|--------|----------------------|-------------------|-----------------------|
| | Number of Options | Exercise Price | |
| 2005 | 53,000 | \$0.50 | 53,000 |
| 2005 | 80,000 | \$0.625 | 80,000 |
| 2007 | 261,000 | \$0.75 | 261,000 |
| 2008 | 1,054,500 | \$0.25 | 1,054,500 |
| 2009 | 40,000 | \$0.25 | 20,000 |
| 2009 | 10,000 | \$0.37 | — |
| | 1,498,500 | | 1,468,500 |

At March 31, 2004, there are options outstanding totalling 1,498,500 at a weighted average exercise price of \$0.37.

| | March 31, 2004 | | September 30, 2003 | |
|----------------------------------|------------------|------------------------------------------|--------------------|------------------------------------------|
| | Share Options | Weighted Average Exercise Price | Share Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 1,448,500 | \$ 0.37 | 654,000 | \$ 0.71 |
| Granted | 50,000 | \$ 0.27 | 1,448,500 | \$ 0.37 |
| Exercised | — | | — | |
| Forfeited | — | | (654,000) | \$ 0.71 |
| Outstanding, end of period | 1,498,500 | \$ 0.37 | 1,448,500 | \$ 0.37 |

The Company has estimated the value of the options granted during the period using the Black-Scholes option pricing model. As the Company was privately held throughout the first quarter, the common shares did not trade and management was unable to determine the volatility of the common shares at the time the options were granted. Therefore, volatility was excluded from the determination of compensation expense. The value of the options granted during the first quarter was \$0.0477 per share based on the exercise price of \$0.25 per share, a risk-free interest rate of 4.25%, an expected life of five years, and no dividends paid.

Shares of the Company began to trade on the TSX Venture Exchange on January 28, 2004. The value of options granted during the second quarter was \$0.2627 per share based on the exercise price of \$0.37 per share, a risk free interest rate of 2.862%, an expected life of five years, no dividends paid, and a volatility rate of 1.47.

Based on the assumptions above, the stock options granted during the six month period have an immaterial impact on the net loss for the period.

Corporate Information

BOARD OF DIRECTORS

Aaron Dagan*
President & CEO
PsiNaptic Inc.

Dr. Michel Fattouche*
Chief Technical Officer
Cell-Loc Location Technologies Inc.

Stuart M. Olley*
Partner,
Stikeman Elliott LLP

Andrew L. Oppenheim
Partner,
Gowling Lafleur Henderson LLP

MANAGEMENT TEAM

Aaron Dagan
President & CEO

Cameron Roe
Vice President and
Senior Technical Architect

Serge Brache
Manager Engineering

Morris Bleviss
Chief Financial Officer

* member of Audit Committee

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Facsimile: 403.720.2537

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BANKER

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REGISTRAR AND TRANSFER AGENT

Computershare Trust Company
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SHAREHOLDER INFORMATION

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information, please contact:

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WEBSITE

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STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: PST



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