Intrinsyc Software International, Inc

Quarterly Reports

Third Quarter 2006

Officers of the Company and Management Team

Derek W. Spratt, P.Eng.
CEO

Vincent Schiralli, BA
President & COO

Andrew Morden
Chief Financial Officer

David B. Manuel, P.Eng.
Executive VP of Customer Programs

Wendy Pitt-Brooke
Corporate Secretary

Randy Kath
Chief Technology Officer and VP of the Mobile Products Group

Andrew Hurdle
Executive VP for Worldwide Sales

Graham Underwood
Business Unit Manager,
Enterprise Interoperability Solutions

David Hann
General Manager, Intrinsyc Europe

Board of Directors

Robert J. Gayton, Ph.D., FCA
West Vancouver, BC, Canada

Vincent Schiralli, BA
Vancouver, BC, Canada

George A. Duguay, CGA
Thornhill, ON, Canada

Derek W. Spratt, P.Eng.
Vancouver, BC, Canada

Mark McQueen
Toronto, ON, Canada

Tom Bitove
Toronto, ON, Canada

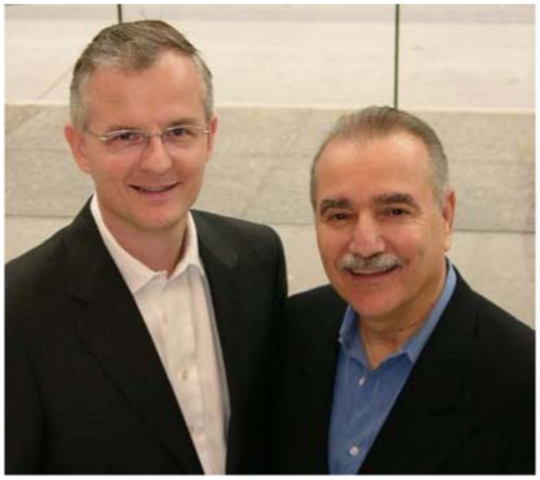
Corporate Office

10th Floor
700 West Pender St.
Vancouver, BC
Canada V6C 1G8
604.80 1 .646 1 *Telephone*
604.801.6417 *Facsimile*

invest@intrinsyc.com

Market In formation Symbol: ICS:TSX
Web Site: www.intrinsyc.com

Report to Shareholders



July 11, 2006

As Intrinsyc Software completes its third quarter of fiscal year 2006, we report revenues of $4.4 million for the quarter, which is a 3% increase over the same period last year. Our year-to-date revenue was $13.7 million, a 13% increase from the $12.1 million in our prior year. The third quarter sales results were again driven by our systems integration business performance which continues to be a solid foundation and source of industry credibility on which to build our new Soleus™ feature phone business.

This last quarter saw us achieve an important milestone in our Soleus go-to-market plan with the signing of Wistron Corporation as the first Soleus licensee. We also just completed the signing of an additional Memorandum of Understanding (MOU) with Ginwave Technologies. We will be working directly with potential licensees with the goal of signing software licensing agreements to build Soleus-based mobile phone designs. In addition to these relationships, we have continued to be successful in formalizing our relationships with the independent software companies that we will be working with in delivering integrated software solutions to our licensees.

In May we tackled some important organizational changes that we believe prepare the Company for dealing with the requirements for the growth of the Soleus business and the mobile handset industry. The changes mark another step in the growth of the Company, and play an important role in refining our focus for our mobile software products business model.

Some of the Company's recent highlights illustrate the progress we are making with Soleus including:

- On June 21 2006, the Company and Winwap Technologies Oy, specialists in providing mobile Internet browsers (WAP) and multimedia messaging (MMS) software announced the availability of Winwap's WAP browsing and MMS technology for Soleus™. Winwap worked closely with Intrinsyc to pre-integrate the WinWAP OEM Browser and WinWAP MMS Client together with Soleus, offering web and WAP services access and MMS functionality to manufacturers of Soleus-based feature phones.

- On June 8 2006, the Company announced the availability of a Soleus feature phone reference design based on Texas Instruments Incorporated (TI) OMAP850 processor. The reference design combines Soleus and the TI OMAP850 integrated applications processor in a turnkey solution suited for the space-constrained systems of small and light mobile handset designs.

- On April 5, 2006, the Company together with Web Information Solutions, Inc. announced that the WebIS POP3/IMAP4 email client has been successfully pre-integrated into Intrinsyc's Soleus™ product. WebIS worked with Intrinsyc to pre-integrate its mobile email client with Soleus, opening the possibility that POP3/IMAP4 email functionality may be available to manufacturers of Soleus-based feature phones.

- On April 5, 2006, the Company announced that Soleus™ includes T9® Text Input software from AOL's Tegic. Tegic's industry-leading T9 Text Input software has been fully integrated by Intrinsyc into the Soleus platform, offering a certified predictive text solution to manufacturers building Soleus-based feature phones.

Despite these achievements and the growth of our systems integration business revenues, we are still not satisfied with the level of our business losses for the quarter, which continued to be effected by challenging new silicon vendor software porting projects where we underestimated the level of effort and complexity. Foreign exchange impacts were also a challenge for us in the quarter as the Canadian dollar strengthened.

Looking forward now, we are focused on closing more software licensing agreements (SLAs) for Soleus and improving the profitability of the engineering services revenue base. We continue to be on schedule with our product delivery roadmap, which has us entering into network certification over the next few quarters and achieving product release to our customer's manufacturing lines after that – with preliminary targets for initial product licensing and revenue recognition in late calendar 2006 or early 2007.

We are excited about the challenges ahead and look forward to achieving continued success as a result of our cumulative initiatives. We would like to close by thanking all of our stakeholders including our loyal investors, our skilled and dedicated staff, and our valued customers and partners. We appreciate your continued support.

Sincerely,
Intrinsyc Software International, Inc.

Derek Spratt	Vince Schiralli
Chief Executive Officer	President & COO

Consolidated Financial Statements

Intrinsyc Software International, Inc.

(Formerly Intrinsyc Software, Inc.)

Unaudited Three and Nine Months ended May 31, 2006 and May 31, 2005

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	May 31, 2006 $	August 31, 2005 $
ASSETS *[note 8]*		
Current		
Cash and cash equivalents *[note 3]*	**26,436,504**	7,318,210
Accounts receivable *[notes 4 and 14]*	**3,586,118**	3,909,596
Inventory	**134,932**	134,318
Prepaid expenses	**188,849**	306,089
Total current assets	**30,346,403**	11,668,213
Prepaid expenses	**60,864**	39,673
Equipment *[note 14]*	**1,367,619**	980,580
Goodwill	**14,189,478**	14,189,478
Intangible assets	**634,953**	1,212,577
Deferred financing costs *[note 8]*	**635,814**	--
Total assets	**47,235,131**	28,090,521
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *[note 9]*	**3,619,589**	2,790,071
Taxes payable	**106,232**	263,382
Deferred revenue	**604,372**	836,660
Total current liabilities	**4,330,193**	3,890,113
Debentures *[note 8]*	**7,531,615**	--
Future income taxes	**243,777**	261,425
Total liabilities	**12,105,585**	4,151,538
Contingencies and commitments *[notes 9 and 10]*		
Shareholders' equity		
Share capital *[note 12]*	**74,642,865**	57,452,141
Warrants and underwriters options *[notes 8 and 12]*	**5,229,997**	163,500
Contributed surplus *[note 13]*	**2,793,821**	1,896,760
Cumulative translation adjustment	**(27,792)**	(27,792)
Deficit	**(47,509,345)**	(35,545,626)
Total shareholders' equity	**35,129,546**	23,938,983
Total liabilities and shareholders' equity	**47,235,131**	28,090,521

See accompanying notes to unaudited interim consolidated financial statements

On behalf of the Board:

Derek Spratt, Director

Robert Gayton, Director

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited)

	Three months ended May 31		Nine months ended May 31	
	2006 **$**	**2005** **$**	**2006** **$**	**2005** **$**
Revenues *[note 14]*	**4,388,609**	4,275,715	**13,733,785**	12,126,517
Cost of sales	**2,842,655**	2,320,743	**8,692,974**	6,419,645
	1,545,954	1,954,972	**5,040,811**	5,706,872
Expenses				
Administration	**1,211,953**	1,110,831	**3,961,308**	3,179,359
Marketing and sales	**899,821**	757,428	**2,590,737**	2,270,764
Research and development	**2,991,499**	1,084,815	**7,293,267**	2,458,051
Amortization *[note 5]*	**215,772**	213,350	**868,967**	628,259
Stock-based compensation *[note 13]*	**250,917**	221,012	**757,061**	574,520
Technology Partnerships Canada Funding Investment *[note 9]*	**122,965**	27,341	**124,138**	(10,348)
	5,692,927	3,414,777	**15,595,478**	9,100,605
Loss before other expense (income) and income taxes	**4,146,973**	1,459,805	**10,554,667**	3,393,733
Other expense (income)				
Foreign exchange loss (gain)	**254,189**	(128,398)	**450,748**	193,899
Interest income	**(199,797)**	(38,248)	**(317,472)**	(90,188)
Accretion and amortization – long term debt *[note 8]*	**204,568**	--	**538,551**	--
Interest expense – long term debt *[note 8]*	**252,055**	--	**657,534**	--
	511,015	(166,646)	**1,329,361**	103,711
Loss before income taxes	**4,657,988**	1,293,159	**11,884,028**	3,497,444
Income tax expense (recovery)				
Current	**70,557**	18,388	**137,664**	18,388
Future	**(23,653)**	(23,652)	**(57,973)**	(70,956)
	46,904	(5,264)	**79,691**	(52,568)
Loss for the period	**4,704,892**	1,287,895	**11,963,719**	3,444,876
Deficit, beginning of period	**42,804,453**	32,722,626	**35,545,626**	30,565,645
Deficit, end of period	**47,509,345**	34,010,521	**47,509,345**	34,010,521
Loss per share (basic and diluted)	**0.06**	0.02	**0.19**	0.06
Weighted average number of shares outstanding	**74,588,417**	56,233,718	**62,420,626**	53,885,497

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended May 31		Nine months ended May 31	
	2006 **$**	**2005** **$**	**2006** **$**	**2005** **$**
OPERATING ACTIVITIES				
Loss for the period	**(4,704,892)**	(1,287,895)	**(11,963,719)**	(3,444,876)
Items not involving cash				
Amortization	**215,772**	213,350	**868,967**	628,259
Future income taxes	**(25,352)**	(23,652)	**(17,650)**	(70,956)
Stock-based compensation	**250,917**	221,012	**757,061**	574,520
Accretion and amortization – long term debt	**204,568**	--	**538,551**	--
Changes in non-cash operating working capital				
Accounts receivable	**147,677**	(513,513)	**323,478**	(966,466)
Other receivable	--	--	**--**	947,374
Inventory	**5,971**	22,492	**(614)**	105,142
Prepaid expenses	**132,502**	53,919	**96,049**	190,806
Accounts payable and accrued liabilities	**262,095**	401,492	**829,518**	64,931
Taxes payable	**(8,721)**	53,958	**(157,150)**	41,645
Deferred revenue	**135,637**	130,510	**(232,288)**	220,271
Cash used in operating activities	**(3,383,826)**	(728,327)	**(8,957,797)**	(1,709,350)
INVESTING ACTIVITIES				
Purchase of short term investments	**--**	--	**--**	(5,000,000)
Purchase of equipment	**(143,266)**	(134,373)	**(678,382)**	(424,642)
Cash used in investing activities	**(143,266)**	(134,373)	**(678,382)**	(5,424,642)
FINANCING ACTIVITIES				
Issuance of common shares *[note 6 and 7]*	**24,117,861**	--	**24,119,811**	5,632,671
Share issuance costs *[note 7]*	**(2,321,733)**	--	**(2,321,733)**	(508,607)
Debentures *[note 8]*	**--**	--	**8,000,000**	--
Debentures issuance costs *[note 8]*	**--**	--	**(1,043,605)**	--
Cash provided by financing activities	**21,796,128**	--	**28,754,473**	5,124,064
Increase (decrease) in cash and cash equivalents	**18,269,036**	(862,700)	**19,118,294**	(2,009,928)
Cash and cash equivalents, beginning of period	**8,167,468**	3,453,232	**7,318,210**	4,600,460
Cash and cash equivalents, end of period	**26,436,504**	2,590,532	**26,436,504**	2,590,532
Supplementary information				
Interest paid	**253,983**	6,504	**666,150**	12,980
Income taxes paid (recovered)	**59,870**	(11,007)	**105,693**	(11,007)

See accompanying notes to unaudited interim consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2006 Unaudited

1. BASIS OF PRESENTATION

The accompanying unaudited interim 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 intercompany balances and transactions. These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information, applied on a consistent basis with the audited consolidated annual financial statements for the year ended August 31, 2005. The unaudited interim consolidated financial statements do not include all information and footnote disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report for the fiscal year ended August 31, 2005.

The preparation of these unaudited interim consolidation financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows and for all periods presented, have been included. Interim results for the three and six month period ended February 28, 2006 are not necessarily indicative of the results that may be expected for the fiscal year or for any other period.

2. SIGNIFICANT ACCOUNTING POLICIES

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 maintenance and 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.

3. 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 6.0% at May 31, 2006 [August 31, 2005 – 4.50%]. The line is collateralized by a $1,050,000 Guaranteed Investment Certificate of Deposit. There was no borrowing outstanding against the operating line of credit as at May 31, 2006 [August 31, 2005 - Nil].

4. ACCOUNTS RECEIVABLE

	May 31, 2006 $	**August 31, 2005 $**
Trade and miscellaneous receivables	**2,890,897**	3,465,144
Unbilled revenue	**695,221**	444,452
	3,586,118	3,909,596

5. AMORTIZATION

	Three Months Ended May 31		**Nine Months Ended May 31**	
	2006 $	**2005** $	**2006** $	**2005** $
Equipment	**112,400**	109,564	**291,343**	316,900
Intangible assets	**103,372**	103,786	**577,624**	311,359
	215,772	213,350	**868,967**	628,259

6. RIGHTS OFFERING

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.

7. PUBLIC OFFERING

On March 2, 2006, the Company announced that it had entered into an agreement with a group of underwriters in connection with a public offering of units comprised of common shares and warrants to purchase common shares in the Company. The offering closed on March 30, 2006, and a total of 26,796,401 units were sold at an offering price of $0.90 per unit for gross proceeds of approximately $24,116,761 with approximately $2,321,733 of cash underwriters' fees and expenses resulting in net cash proceeds of $21,795,028.

The units were severed into their constituent common shares and warrants upon closing, and as a result, an additional 26,796,401 common shares and 13,398,201 common share purchase warrants were issued by the Company on March 30, 2006. Each whole warrant entitles the holder thereof to purchase one common share at a price of $1.05 for a period of four years following the closing of the offering. The warrants were valued at $4,084,584.

The underwriters received 1,607,784 compensation options (“underwriter optons”). This equates to 6% of the aggregate number of units sold under the offering. Each compensation option is exercisable to purchase one unit at the offering price for a period of two years following the closing date of March 30, 2006. The underwriter options were valued at $546,270.

The fair values of the warrants and underwriters options recorded in Shareholders’ equity were determined using the Black-Scholes option pricing model.

Net proceeds from the offering will be used to fund sales, marketing and research and development related to the Company’s new Soleus product, as well as for general corporate purposes.

8. DEBENTURES

On October 3, 2005, the Company closed an $8.0 million debenture financing (the “Debenture Financing”) with Wellington Financial Fund II ("Wellington Financial"). The financing is by way of secured Debentures (the “Debentures”) maturing on October 3, 2007, at which time the $8.0 million will become due and payable. The maturity date may be extended by one year by the Company 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 at any time following such date which is six months from the date following the closing date (April 3, 2006), and 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. Under the terms of the debentures, the Company must maintain a minimum cash balance of $2 million and tangible net assets in excess of $500,000.

8. DEBENTURES (continued)

Concurrent with the financing, the Company has issued to Wellington Financial an aggregate of 3,870,968 warrants of the Company (the "Warrants"). Each 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.

The gross proceeds for the Debentures were allocated to the Debentures and the Warrants based on the relative fair value of each security at the time of issuance. Accordingly, $7,310,973 was allocated to the Debentures and $689,027 was allocated to the Warrants. The fair value of the Debentures was determined by discounting the expected future cash flows of the principal and interest payments using a discount rate of 19%, which, in management's opinion, approximates the market rate of interest for similar instruments, at the time of issue, without attached warrants. The carrying value of the Debentures will be accreted to their face value over their life to maturity (October 3, 2007). For the three months and nine months ended May 31, 2006, the Company recorded $85,352 and $220,642 respectively as accretion expenses. The fair value of the Warrants recorded in shareholders' equity was determined using the Black-Scholes option pricing model.

There were a total of $1,043,605 of legal, professional and transaction fees associated with the Debenture Financing. Of this amount, $953,721 was recorded as deferred financing costs and $89,884 was recorded in warrants in shareholders' equity on a proportionate basis based on the relative fair value of the Debentures and the Warrants. Deferred financing costs are being amortized over the twenty four month life to maturity of the Debentures. During the three months and nine months ended May 31, 2006, the Company recorded $119,216 and $317,909 respectively of amortization on the deferred financing costs.

A summary of the Company's expenses related to the long term debt financing are as follows:

	Three Months Ended May 31 2006 $	**Nine Months Ended May 31 2006** $
Non-cash accretion of debentures from carrying value to face value	**85,352**	**220,642**
Non-cash amortization of debt financing charges	**119,216**	**317,909**
	204,568	**538,551**
Cash interest expense	**252,055**	**657,534**
	456,623	**1,196,085**

9. 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 to $5,415,648 to support the development of embedded devices and wireless internet-enabled network connectivity. 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 the fourth quarter of fiscal 2005, the Company recorded an additional liability of approximately $226,000 for royalties due under the terms of the TPC agreements which was subsequently paid. During the quarter ended May 31, 2006, the Company recorded a liability of approximately $122,965 for the royalties due under the terms of the TPC agreement for fiscal 2006.

All audits of the Company's compliance with the TPC agreements that were in process in prior periods are complete and the Company is currently reviewing the results of the audits and negotiating an extension of its TPC agreement, which expired in March 2004. 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 of the TPC agreements will be amended. If the Company does not accept the extension, the Company is not obligated to pay approximately $387,000. The outcome of these negotiations is not known or determinable at this time. Accordingly no provision has been made. 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 and accrued approximately $354,500 in royalties.

10. COMMITMENTS AND CONTINGENCIES

The Company has lease commitments for office premises and equipment with remaining terms of up to five years. In addition, the Company has a commitment to pay a royalty of $15 USD per $100 USD of licenses sold of certain software licenses. In the event the cumulative royalty is less than $150,000 USD, the Company must pay the difference between the cumulative amount paid and the $150,000 USD on November 30, 2008. The royalty payment and the minimum lease payments in each of the next five fiscal years are approximately as follows:

	$
2006 - remainder	286,000
2007	1,068,000
2008	718,000
2009	816,000
2010	655,000
	3,543,000

11. EMPLOYEE PENSION CONTRIBUTIONS

	Three Months Ended May 31		Nine Months Ended May 31	
	2006 $	2005 $	2006 $	2005 $
Benefit costs	**176,502**	81,563	**454,379**	158,575

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.

12. 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, 2005	56,233,718	57,452,141
Warrants exercised	--	23,500
Shares issued in connection with stock options exercised	5,750	3,050
Shares issued in connection with public offering *[note 7]*	26,796,401	17,164,174
Outstanding, May 31, 2006	83,035,869	74,642,865

Share option plan

The Company has reserved 11,095,774 options for issuance pursuant to its employee share option plan. A total of 4,101,524 options have been exercised to-date leaving a total of 6,994,250 options available for issuance, of which 5,483,213, have been granted and are outstanding as at May 31, 2006.

12. SHARE CAPITAL (continued)

A summary of the Company's share option activity for the nine months ended May 31, 2006 is as follows:

	Outstanding options	
	Number of common shares	Weighted average exercise price $
Outstanding, August 31, 2005	4,732,973	1.02
Options granted	1,998,560	0.94
Options exercised	(5,750)	0.53
Options cancelled	(1,242,570)	1.17
Outstanding, May 31, 2006	5,483,213	0.99

The following table summarizes the share options outstanding at May 31, 2006:

Options outstanding				Options exercisable	
Range of exercise price $	Number of common shares	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable	Weighted average exercise price $
0.49 – 0.74	1,357,750	3.15	0.55	771,317	0.54
0.75 – 1.10	2,332,780	3.77	0.99	791,633	1.00
1.11 – 1.65	1,420,058	3.28	1.24	674,098	1.22
1.66 - 3.72	372,625	0.38	2.17	372,625	2.17
	5,483,213	3.26	0.99	2,609,673	1.09

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:

	Three Months Ended May 31		Nine Months Ended May 31	
	2006	2005	2006	2005
Expected life in years	**4.00**	4.00	**4.00**	2.69
Risk-free interest rate	**4.06%**	2.87%	**3.91%**	2.95%
Volatility	**174.7%**	172.7%	**172.8%**	171.4%
Dividend yield	**0%**	0%	**0%**	0%

12. SHARE CAPITAL (continued)

Warrants & Underwriter Options

	Outstanding warrants		
	Number of Warrants and Underwriter Options	Weighted average exercise price $	Amount $
Outstanding, August 31, 2005	100,000	3.20	163,500
Warrants *[note 8]*	3,870,968	0.62	599,143
Share capital reallocation		0.94	(23,500)
Warrants expired	(100,000)	3.20	(140,000)
Warrants *[note 7]*	13,398,201	1.05	4,084,584
Underwriter's compensation options *[note 7]*	1,607,784	0.90	391,711
Underwriter's compensation warrants *[note 7]*	803,892	1.05	154,559
Outstanding, May 31, 2006	19,680,845	0.95	5,229,997

On January 26, 2006, 100,000 share purchase warrants valued at $140,000 expired and the value of the warrants was recorded as contributed surplus. The value of $23,500 relating to 25,000 share purchase warrants exercised in March, 2004 has been recorded as an addition to share capital.

13. CONTRIBUTED SURPLUS

	Three Months Ended May 31		Nine Months Ended May 31	
	2006 $	2005 $	2006 $	2005 $
Contributed Surplus – Opening Balance	**2,542,904**	1,434,054	**1,896,760**	1,080,546
Warrants expired	**--**	--	**140,000**	--
Stock-Based Compensation Expense	**250,917**	221,012	**757,061**	574,520
Contributed Surplus – Closing Balance	**2,793,821**	1,655,066	**2,793,821**	1,655,066

14. SEGMENTED INFORMATION

Operating segments

The Company operates in the sale and service of mobility and/or 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 equipment is located as follows:

	May 31, 2006 $	August 31, 2005 $
United States	**265,071**	165,902
Canada	**971,323**	705,443
Europe	**131,225**	109,235
	1,367,619	980,580

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

	Three Months Ended May 31		Nine Months Ended May 31	
	2006 $	2005 $	2006 $	2005 $
United States	**2,166,856**	1,649,505	**7,106,203**	4,762,167
Canada	**59,055**	62,073	**542,074**	420,026
Europe	**2,125,739**	2,506,431	**5,610,497**	6,520,033
Other	**36,959**	57,706	**475,011**	424,291
	4,388,609	4,275,715	**13,733,785**	12,126,517

Significant customers

	% of Sales Three Months Ended May 31		% of Sales Nine Months Ended May 31		% of Accounts Receivable May 31
	2006	2005	2006	2005	2006
Customer 1	**20%**	19%	**16%**	21%	**12%**
Customer 2	**4%**	13%	**10%**	10%	**5%**
Total	**24%**	32%	**26%**	31%	**17%**

15. COMPARATIVE FIGURES

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

Management's Discussion & Analysis

July 11, 2006

This management discussion and analysis covers our unaudited interim consolidated financial statements as at, and for the three and nine month periods ended May 31, 2006. Management's discussion and analysis of the financial condition and results of operations of Intrinsyc Software International, Inc. (the "Company") should be read in conjunction with the most recent annual consolidated financial statements and the notes thereto that are prepared in accordance with Canadian generally accepted accounting principles, (GAAP). All amounts are presented in Canadian dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

Special Note Regarding Forward-Looking Statements

The following discussion and analysis of the financial conditions and results of operations contains "forward-looking statements". In some cases forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology. These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, expected activities and expenditures as the Company pursues its business plan, the adequacy of the Company's available cash resources and other statements about future events or results. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, forward-looking statements are subject to business and economic risks and uncertainties and other factors that could cause actual results of operations, levels of activity, performance or achievements to differ materially from those contained in the forward-looking statements. Consequently, all forward looking statements made in this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. Some of these risks, uncertainties and other factors are described herein under the heading "Risks and Uncertainties" and in the most recent Annual Information Form under the heading "Risk Factors". The Company disclaims any intent or obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

Overview

During February 2006, the Company announced the commercial availability of its mobile software product branded as Soleus™. Soleus, first demonstrated at the 3GSM World Congress in Cannes, France, February 2005, under the code name Polaris, is a turnkey development platform for feature phones that leverages the Microsoft® Windows™ CE operating system to create software that provides mobile phone manufacturers with options, a broad range of telephony features, and a suite of voice and data applications.

Third Quarter Fiscal 2006 – Statement of Operations
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

	Q3 F2006	Q3 F2005	Change	Percentage Change
Revenue	**$4,388,609**	**$4,275,715**	**$112,894**	**2.6%**
Gross Margin	**$1,545,954**	**$1,954,972**	**($409,018)**	**(20.9%)**
Gross Margin %	**35%**	**46%**	**(10.5%)**	
Administration Expense	$1,211,953	$1,110,831	($101,122)	(9.1%)
Marketing and Sales	$899,821	$757,428	($142,393)	(18.8%)
Research And Development - Soleus Development	$2,929,574	$879,901	($2,049,673)	(232.9%)
Other Research & Development	$61,925	$204,914	$142,989	69.8%
Amortization	$215,772	$213,350	($2,422)	(1.1%)
Stock based Compensation	$250,917	$221,012	($29,905)	(13.5%)
Technology Partnerships Canada Funding Investment	$122,965	$27,341	($95,624)	(349.7%)
Total Operating Expenses	**$5,692,927**	**$3,414,777**	**($2,278,150)**	**(66.7%)**
Foreign Exchange Loss (Gain)	$254,189	($128,398)	($382,587)	(298.0%)
Interest Income	($199,797)	($38,248)	$161,549	422.4%
Accretion and Amortization - Long Term Debt	$204,568	$0	($204,568)	
Interest Expense-Long Term Debt	$252,055	$0	($252,055)	
Income Tax Expense (Recovery)	$46,904	($5,264)	($52,168)	991.0%
Net Loss	**($4,704,892)**	**($1,287,895)**	**($3,416,997)**	**(265.3%)**
Net Loss Per Share	($0.06)	($0.02)	($0.04)	200.0%

The improvement in revenues in the third quarter of fiscal 2006, compared to the third quarter of fiscal 2005, continues to be based on the strength of the mobile system integration services market particularly related to Microsoft's Windows Mobile product and the success of the Company's sales strategy in this market. Revenue was negatively impacted during the quarter by one significant customer project that was suspended by the customer. As a result the Company has been unable to recognize a significant amount of revenue related to the project until there is a greater certainty of collection. If and when the customer agrees to restart the project and/or pay for the effort incurred to date the Company will recognize the revenue.

The improvement in revenue was partially offset by changing foreign exchange rates. The weakening US dollar decreased revenue in the third quarter of fiscal 2006, relative to fiscal 2005, by 7% or $305,000.

The increase in the net loss for the third quarter of fiscal 2006, compared to the third quarter of fiscal 2005, was substantially the result of:

- The reduction in gross margin percentage, which was mainly due to technical challenges and the associated increase in costs incurred by the Company's engineering services business unit related to complex new semiconductor technology.
- The increase in administration expense largely due to the costs required to support the headcount increases in the Company, particularly compensation, and office expenses. In addition, legal and intellectual properties increased as the Company established a framework for protecting its' intellectual property.
- The increase in marketing and sales costs is due to the increase in sales activity and revenue. Salaries increased as did variable compensation associated with increasing sales revenue and traction with potential Soleus customers.
- The increase in staff in research and development working on the development of the Soleus product drove the majority of the increase in research and development expense. Staff working on Soleus increased from 20 at May 31, 2005 to 67 at May 31, 2006 resulting in an increase in compensation costs as well as increases in rent and office costs.
- Expenditures in Other Research and Development have declined due to less research and development effort in the Company's engineering services and interoperability software business units.
- Amortization expense relates to tangible and intangible assets. Amortization expense was consistent with the three months ended May 31, 2005. The current level of tangible assets employed in the Company's business increased as compared with the three months ended May 31, 2005 causing an increase in amortization expense. This increase was offset by a decline in amortization relating to intangible assets that are amortized on a declining balance basis causing total amortization for the three months ended May 31, 2006 to be consistent with the amortization for the three months ended May 31, 2005. Equipment purchases associated with the expansion of both the Vancouver and Bellevue facilities accounted for the increase in tangible assets employed in the Company's business.
- The increase in stock based compensation expense is due to the increase in the number of options outstanding as a result of options issued to new employees.
- The impact of the strengthening of the Canadian dollar relative to the US dollar caused the foreign exchange loss of approximately $254,000 during the three months ended May 31, 2006. The Company has a hedging program in place which hedges approximately 60% to 80% of its net monthly US dollar cash inflows against the Canadian dollar.
- Interest income of approximately $200,000 was earned during the three months ended May 31, 2006 as compared to interest income of approximately $38,000 for the three months ended May 31, 2005. The

large increase in interest income was the result of interest earned on cash balances during the quarter. Cash balances during the quarter ended May 31, 2006 increased substantially due to the Company's Public Offering for gross proceeds of $24,117,000 that closed on March 30, 2006.

- The $252,000 in cash interest expense, and $205,000 of accretion and amortization of deferred financing charges, all relate to the Wellington Debenture Financing completed in the first quarter of fiscal 2006.
- The increase in the income tax expense relates to the Company's international operating structure.

Third Quarter Fiscal 2006 – Statement of Operations
Comparison of Third Quarter Fiscal 2006 and Second Quarter Fiscal 2006

	Q3 F2006	Q2 F2006	Change	Percentage Change
Revenue	**$4,388,609**	**$4,792,488**	**($403,879)**	**(8.4%)**
Gross Margin	**$1,545,954**	**$1,610,855**	**($64,901)**	**(4.0%)**
Gross Margin %	**35%**	**34%**	**1.6%**	
Administration Expense	$1,211,953	$1,360,608	$148,655	10.9%
Marketing and Sales	$899,821	$883,517	($16,304)	(1.8%)
Research And Development - Soleus Development	$2,929,574	$2,508,878	($420,696)	(16.8%)
Other Research & Development	$61,925	$144,509	$82,584	57.1%
Amortization	$215,772	$430,722	$214,950	49.9%
Stock based Compensation	$250,917	$301,684	$50,767	16.8%
Technology Partnerships Canada Funding Investment	$122,965	$0	($122,965)	
Total Operating Expenses	**$5,692,927**	**$5,629,918**	**($63,009)**	**(1.1%)**
Foreign Exchange Loss	$254,189	$89,136	($165,053)	(185.2%)
Interest Income	($199,797)	($67,757)	$132,040	194.9%
Accretion and Amortization - Long Term Debt	$204,568	$207,609	$3,041	1.5%
Interest Expense-Long Term Debt	$252,055	$246,575	($5,480)	(2.2%)
Income Tax Expense	$46,904	$34,451	($12,453)	(36.1%)
Net Loss	**($4,704,892)**	**($4,529,077)**	**($175,815)**	**(3.9%)**
Net Loss Per Share	($0.06)	($0.08)	$0.02	(25.0%)

Overall the revenue for the third quarter decreased as compared to that of the second quarter. This decrease was as a result of one significant customer project that was suspended by the customer during the quarter. As a result the Company has been unable to recognize a significant amount of revenue related to the project until there is a greater certainty of collection. If and when the customer agrees to restart the project and/or pay for the effort incurred to date the Company will recognize the revenue.

The increase in the net loss for the third quarter of fiscal 2006, compared to the second quarter of fiscal 2006 was substantially the result of:

- The customer suspended project which caused revenue to decrease.
- The decrease in gross margin. Gross margin was negatively impacted in the quarter due to the suspension of the customer project noted above.

- Administration expenses were lower in the third quarter as compared to the prior quarter due to a decrease in training expenses as there were fewer new hires, and a decrease in legal costs in the quarter as the work related to operations in Asian jurisdictions was completed in the second quarter.
- Sales and marketing costs in the third quarter were consistent with second quarter. The Company decreased its sales and marketing costs in the quarter related to tradeshows and market research, however this was offset by increases in costs relating to salary and recruiting fees for new sales personnel.
- An increase in staff and temporary employee costs as well as recruiting costs in the Soleus business unit drove a $421,000 increase in Soleus research and development. Staff working on Soleus has increased from 46 as at February 28, 2006 to 67 as at May 31, 2006.
- Interest income of approximately $200,000 was earned during the three months ended May 31, 2006 as compared to interest income of approximately $68,000 for the three months ended February 28, 2006. The large increase in interest income was the result of interest earned on cash balances during the quarter. Cash balances during the quarter ended May 31, 2006 increased substantially due to the Company's Public Offering for gross proceeds of $24.1 million (net cash proceeds of $21.8 million) that closed on March 30, 2006.
- Cash interest expense, accretion, and amortization of deferred financing charges relate to the Wellington debt financing completed in October 2005. Amortization expense decreased in the three months ended May 31, 2006 as compared to the three months ended February 28, 2006 as a result of a $196,000 write-off of intellectual property that occurred during the three months ended February 28, 2006. The write off related to intellectual property that was acquired in prior periods and it was written off as material future sales of these products to which the intellectual property relates are unlikely.
- Stock based compensation decreased during the three months ended May 31, 2006 as compared to the three months ended February 28, 2006 as in the prior quarter there was an issuance of options to directors of the Company where a portion vested immediately causing the stock based compensation expense to increase. No such issuance occurred in the current quarter resulting in a smaller stock based compensation charge.
- The increase in the income tax expense relates to the Company's international operating structure.

The increase in the net loss for the third quarter of fiscal 2006, compared to the second quarter of fiscal 2006, was partially as a result of the increase in the foreign exchange loss as the US currency's value, relative to the Canadian dollar, weakened in the third quarter.

Year-to-Date Fiscal 2006 – Statement of Operations
Comparison of Year-to-Date Fiscal 2006 and Fiscal 2005

	YTD F2006	YTD F2005	Change	Percentage Change
Revenue	**$13,733,785**	**$12,126,517**	**$1,607,268**	**13.3%**
Gross Margin	**$5,040,811**	**$5,706,872**	**($666,061)**	**(11.7%)**
Gross Margin %	**37%**	**47%**	**(10.4%)**	
Administration Expense	$3,961,308	$3,179,359	($781,949)	(24.6%)
Marketing and Sales	$2,590,737	$2,270,764	($319,973)	(14.1%)
Research And Development - Soleus Development	$6,977,623	$1,674,828	($5,302,795)	(316.6%)
Other Research & Development	$315,644	$783,223	$467,579	59.7%
Amortization	$868,967	$628,259	($240,708)	(38.3%)
Stock based Compensation	$757,061	$574,520	($182,541)	(31.8%)
Technology Partnerships Canada Funding Investment	$124,138	($10,348)	($134,486)	(1,299.6%)
Total Operating Expenses	**$15,595,478**	**$9,100,605**	**($6,494,873)**	**(71.4%)**
Foreign Exchange Loss	$450,748	$193,899	($256,849)	(132.5%)
Interest Income	($317,472)	($90,188)	$227,284	252.0%
Accretion and Amortization - Long Term Debt	$538,551	$0	($538,551)	
Interest Expense-Long Term Debt	$657,534	$0	($657,534)	
Income Tax (Recovery) Expense	$79,691	($52,568)	($132,259)	(251.6%)
Net Loss	**($11,963,719)**	**($3,444,876)**	**($8,518,843)**	**(247.3%)**
Net Loss Per Share	($0.19)	($0.06)	($0.13)	216.7%

In addition to the factors discussed above, the increase in the Fiscal 2006 year-to-date revenue was the result of new engineering services customers both in the United Kingdom and North America, particularly related to Microsoft's Windows Mobile product.

Overall, the increase in the net loss for year-to-date fiscal 2006, compared to the net loss for year-to-date fiscal 2005, was substantially the result of:

- The impact of foreign exchange on revenue. The weakening US dollar decreased revenue in fiscal 2006 by approximately 6%, or $764,000 relative to Canadian dollar revenues, had the US currency's value remained unchanged relative to the Canadian dollar in fiscal 2006.
- The reduction in gross margin percentage, which was mainly due to the suspension of a customer project during the period that resulted in the Company being unable to recognize significant revenue under the contract. In addition, technical challenges and the associated increase in costs incurred by the Company's engineering Services business unit related to complex new semiconductor technology also impacted the gross margin. The engineering services business unit also priced a significant contract aggressively in the period due to the strategic value of the customer to the Soleus product eco-system of partners.
- The increase in administration expense was largely due to the costs required to support the headcount increases in the engineering services and Soleus business units, particularly compensation, training, rent and office expenses. In addition, legal and intellectual properties expenses increased dramatically as the Company established a framework for

protecting the MSP intellectual property and doing business in Asian jurisdictions. These increases were offset by reductions in accounting fees, investor relations costs, insurance and bad debts expense.

- The increase in marketing and sales costs is due to the increase in sales activity and revenue. Salaries increased as did variable compensation associated with increasing sales revenue and traction with potential Soleus customers. In addition, the Company increased its participation in the largest and most important tradeshow of the year, the 3GSM World Congress Mobile Event in Barcelona, Spain, and as a result, trade show costs, advertising and travel costs increased. These increases were offset by savings realized from moving internet related marketing programs in-house.
- The increase in staff and temporary employees in the Soleus business unit working on the development of the Soleus product that drove the majority of the increase in Soleus research and development expense. Staff working on Soleus has increased from 2 at September 1, 2004 to 67 at May 31, 2006 resulting in an increase in compensation costs as well as increases in rent and office costs. In addition, there were one-time costs totaling $558,000 for marketing and product management, consulting, trade show costs and travel all related to the Soleus product launch at the 3GSM World Congress Mobile Event in the current year.
- Reduced costs in other research and development reflecting a reduction in the size of the team completing research and development projects related to the Company's hardware and interoperability software products. The level of research and development presently being completed related to these products is sufficient to sustain current offerings.
- Technology Partnerships Canada royalty. The incremental change of $134,000 reflects the accrual of the royalty at specified rates.
- The changes in amortization, stock based compensation, foreign exchange loss, interest income, interest expense on long term debt and income tax expense have all been explained in the preceding commentary.

Third Quarter Fiscal 2006 – Cash Flows
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

Cash Provided by (used in):	Q3 F2006	Q3 F2005	Change
Operating Activities	($3,383,826)	($728,327)	($2,655,499)
Investing Activities	($143,266)	($134,373)	($8,893)
Financing Activities	$21,796,128	$0	$21,796,128
(Decrease) Increase In Cash and Cash Equivalents	$18,269,036	($862,700)	$19,131,736

The cash used in operating activities is attributed to spending on Soleus development which incurred expenses of approximately $2.9 million in the third quarter.

Investing activities increased as a result of the expansion of the Company's Vancouver and Bellevue facilities.

The cash generated by financing activities relates to a public offering closed by the Company on March 30, 2006 for gross proceeds of $24.1 million and net proceeds of $21.8 million

Year-to-Date Fiscal 2006 – Cash Flows
Comparison of Year-to-Date Fiscal 2006 and Year-to-Date Fiscal 2005

Cash Provided by (used in):	YTD F2006	YTD F2005	Change
Operating Activities	($8,957,797)	($1,709,350)	($7,248,447)
Investing Activities	($678,382)	($5,424,642)	$4,746,260
Financing Activities	$28,754,473	$5,124,064	$23,630,409
Increase (Decrease) In Cash and Cash Equivalents	$19,118,294	($2,009,928)	$21,128,222

The Company ended the third quarter of fiscal 2006 with cash and cash equivalents totaling $26.4 million, as compared to $7.3 million at August 31, 2005. On March 30, 2006 the Company completed a public offering for gross proceeds of $24.1 million and net proceeds of $21.8 million. Additionally on October 3, 2005, the Company concluded an $8.0 million secured debenture financing maturing on October 3, 2007.

The cash used in operating activities is due primarily to the spending of approximately $7.0 million on Soleus development during the nine months ended May 31, 2006.

Cash used in investing activities decreased by approximately $4.7 million as the Company purchased a $5 million short term investment during the nine months ended May 31, 2005. This was not duplicated in the nine months ended May 31, 2006 as funds were invested in an interest bearing cash investment account. The Company invested in approximately $678,000 of equipment during the nine months ended May 31, 2006 as compared to $425,000 of equipment during the nine months ended May 31, 2005. The increased level of spending on equipment was made to support the growth of the Vancouver and Bellevue operations.

Cash provided by financing relates to the net cash receipts from the public offering, and the debenture financing in 2006 versus the 2005 rights offering. The public offering was closed in the third quarter and the debt financing was completed in the first quarter of fiscal 2006 and resulted in net cash receipts of approximately $29.1 million in fiscal 2006. The rights offering was completed in the first quarter of fiscal 2005 and resulted in a net cash receipt of approximately $5.1 million.

RESULTS OF OPERATIONS

Revenues

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

	Q3 F2006	Percentage of Total Revenue	Q3 F2005	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	$357,139	8.1%	$368,159	8.6%	($11,020)	(3.0%)
Software Revenue	$438,761	10.0%	$617,185	14.4%	($178,424)	(28.9%)
Services Revenue	$3,592,709	81.9%	$3,290,371	77.0%	$302,338	9.2%
Total Revenue	**$4,388,609**	**100.0%**	**$4,275,715**	**100.0%**	**$112,894**	**2.6%**

The increase in services revenue is attributable to the increased demand for system integration services related to Microsoft's Windows Mobile product. There was approximately $0.7 million of unbilled revenue included in the revenue for the first three quarters of fiscal 2006 and reflected in the May 31, 2006 accounts receivable balance. Unbilled receivable balances are related to long time customers with established business relationships.

There were two significant customers that accounted for 24% of revenue (20%, and 4%, respectively) in the third quarter of fiscal 2006. These two significant customers accounted for 32% of revenue (19% and 13%, respectively) of revenue in the third quarter of fiscal 2005.

Revenue was also impacted by foreign exchange. The weakening US dollar decreased revenue in the third quarter of fiscal 2006 by approximately 7%, or $305,000, relative to what the Canadian dollar revenues would have been had the US currency's value, relative to the Canadian dollar, remained at third quarter fiscal 2005 levels.

To mitigate the affects of foreign exchange the Company implemented a hedging program during the second quarter of fiscal 2005 to hedge against foreign exchange risk and as a result approximately 60% to 80% of its net monthly US dollar inflows are now hedged against the Canadian dollar. The Company's British pound exposure is naturally hedged by its UK operating costs.

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Second Quarter Fiscal 2006

	Q3 F2006	Percentage of Total Revenue	Q2 F2006	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	$357,139	8.1%	$476,403	9.9%	($119,264)	(25.0%)
Software Revenue	$438,761	10.0%	$463,273	9.7%	($24,512)	(5.3%)
Services Revenue	$3,592,709	81.9%	$3,852,812	80.4%	($260,103)	(6.8%)
Total Revenue	**$4,388,609**	**100.0%**	**$4,792,488**	**100.0%**	**($403,879)**	**(8.4%)**

In the third quarter of fiscal 2006, hardware revenues declined by $119,000, versus the second quarter of fiscal 2006. This was attributable to having received one large order for hardware in the second quarter that was not duplicated in the third quarter. Software revenue in the quarter was consistent with the prior quarter and service revenue in the third quarter decreased due to the customer project that was suspended during the third quarter.

Year to Date Fiscal 2006
Comparison of Year-to-Date Fiscal 2006 and Year-to-Date Fiscal 2005

	YTD F2006	Percentage of Total Revenue	YTD F2005	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	$1,497,679	10.9%	$1,206,974	10.0%	$290,705	24.1%
Software Revenue	$1,355,269	9.9%	$1,543,685	12.7%	($188,416)	(12.2%)
Services Revenue	$10,880,837	79.2%	$9,375,858	77.3%	$1,504,979	16.1%
Total Revenue	**$13,733,785**	**100.0%**	**$12,126,517**	**100.0%**	**$1,607,268**	**13.3%**

Hardware revenues for year to date fiscal 2006 exceeded revenues for the same period of fiscal 2005. This is due to two customers making larger purchases versus the prior year. The increase in service revenue is attributable to the increased demand for system integration services relating to Microsoft's Windows Mobile product and the focus on acquiring new strategic customers. There was approximately $2.5 million of revenue sourced from new customers.

Overall, revenue was impacted negatively by foreign exchange. The weakening US dollar decreased revenue in the first three quarters of fiscal 2006 by approximately 6%, or $764,000, relative to what the fiscal 2006 Canadian dollar revenues would have been had the US currency's value, relative to the Canadian dollar, remained at fiscal 2005 levels.

There were two significant customers that accounted for 26% of revenue (16%, and 10%, respectively) year-to-date in fiscal 2006. These two significant customers accounted for 31% of revenue (21% and 10%, respectively) in the same period in fiscal 2005.

Gross Margins

Gross margins on software licensing revenue of approximately 85% are significantly higher than the gross margins obtained on services revenue of 30% to 40%. As a result, the overall gross margin was a blend of these margins that is weighted towards the services margin.

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

	Q3 F2006	Q3 F2005	Change	Percentage
Gross Margin	$1,545,954	$1,954,972	($409,018)	**(20.9%)**
Gross Margin %	**35%**	**46%**	**(10.5%)**	

The reduction in gross margin percentage was due to a significant customer project suspended during the quarter. It is unclear whether the Company will realize any further amounts under this project and as result the Company has not recognized a significant amount of revenue related to this project during the quarter. This has negatively impacted margins for the quarter. The gross margin was also impacted by a change in the mix in revenue. High margin software sales were a smaller portion of total revenue compared to the prior quarter. In addition, technical challenges and associated increase in costs incurred by the company's engineering services business unit related to complex new semiconductor technology impacted gross margins. A significant portion of the Company's revenue is denominated in U.S. dollars while the Company's direct costs are incurred in Canadian dollars. As a result with the weakening of the U.S. dollar the Canadian dollar equivalent revenue realized decreased while costs in Canadian dollars remained constant, as a result gross margin decreased as compared to prior year.

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Second Quarter Fiscal 2006

	Q3 F2006	Q2 F2006	Change	Percentage
Gross Margin	$1,545,954	$1,610,855	($64,901)	(4.0%)
Gross Margin %	**35%**	**34%**	**1.6%**	

Gross margin increased compared to the prior quarter primarily but remained below historical levels as the result of a significant customer project being suspended during the quarter. It is unclear whether the Company will realize any further amounts under this project and as result the Company has not recognized a significant amount of revenue related to this project during the quarter. This has negatively impacted margins for the quarter.

Year to Date Fiscal 2006
Comparison of Year-to-Date Fiscal 2006 and Year-to-Date Fiscal 2005

	YTD F2006	YTD F2005	Change	Percentage
Gross Margin	$5,040,811	$5,706,872	($666,061)	(11.7%)
Gross Margin %	**37%**	**47%**	**(10.4%)**	

The reduction in gross margin percentage was mainly due to the suspension of a customer project during the period that resulted in the Company being unable to recognize significant revenue under the contract. In addition, technical challenges and the associated increase in costs incurred by the Company's engineering Services business unit related to complex new semiconductor technology also negatively impacted the gross margin. Also, the engineering services business unit priced a significant contract aggressively in fiscal 2006 due to the strategic value of the customer to the Soleus product eco-system of partners. Lastly, a significant portion of the Company's revenue is denominated in U.S. dollars while the Company's direct costs are incurred in Canadian dollars. As a result, with the weakening of the U.S. dollar, the Canadian dollar equivalent revenue realized decreased while costs in Canadian dollars remained constant, as a result gross margin decreased as compared to prior year.

Administration

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

	Q3 F2006	Q3 F2005	Change	Percentage
Administration Expense	$1,211,953	$1,110,831	($101,122)	(9.1%)

The increase in administration expense is largely due to the costs required to support the headcount and business activity increases in the engineering services and Soleus business units, particularly compensation costs increased $74,000 over the third quarter of 2005. In addition, intellectual property services and legal costs increased by a total of $28,000 as the Company established a framework for protecting the Soleus intellectual property and negotiated agreements with Soleus partners and potential customers.

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Second Quarter Fiscal 2006

	Q3 F2006	Q2 F2006	Change	Percentage
Administration Expense	$1,211,953	$1,360,608	$148,655	10.9%

Administrative expense was impacted by reductions of $88,000 in training costs related to new engineering services personnel hired in the first and second quarters of fiscal 2006 and $39,000 in legal fees related to costs incurred in the second quarter relating to doing business in Asian jurisdictions.

Year to Date Fiscal 2006
Comparison of Year-to-Date Fiscal 2006 and Year-to-Date Fiscal 2005

	YTD F2006	YTD F2005	Change	Percentage
Administration Expense	$3,961,308	$3,179,359	($781,949)	(24.6%)

The increase in administration expense is largely due to the costs required to support the headcount increases and business activity in the engineering services and Soleus business units, particularly salaries and variable compensation accruals of $449,000, training costs of $248,000, and office and rent costs of $66,000. In addition, intellectual property services and legal costs increased by a total of $149,000 as the Company established a framework for protecting the Soleus intellectual property and doing business in Asian jurisdictions and also negotiated agreements with potential Soleus customers and partners. These increases were offset by reductions of $117,000 related to accounting services, audit fees, investor relations costs and insurance, and $62,000 related to bad debts expense.

Marketing and Sales Expenses

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

	Q3 F2006	Q3 F2005	Change	Percentage
Marketing and Sales	$899,821	$757,428	($142,393)	(18.8%)

The increase in marketing and sales costs is due to the increase in sales activity and revenue. Salary increases as well as an increase in variable compensation associated with increasing sales revenue and traction with potential Soleus customers resulted in an increase of $99,000 in sales and marketing.

Third Quarter Fiscal 2006
Comparison ofThird Quarter Fiscal 2006 and Second Quarter Fiscal 2006

	Q3 F2006	Q2 F2006	Change	Percentage
Marketing and Sales	$899,821	$883,517	($16,304)	(1.8%)

Marketing and sales costs remained relatively consistent in the third quarter of fiscal 2006 as compared to the second quarter of 2006. There was an increase in marketing and sales costs of $42,000 during the quarter relating to an increase the head count in the sales force and the related recruiting fees. This increase was partially offset by a reduction of $28,000 in tradeshow expense as the Company had a major presence at a large tradeshow (3GSM World Congress) in the second quarter of this year.

Year to Date Fiscal 2006
Comparison of Year-to-Date Fiscal 2006 and Year-to-Date Fiscal 2005

	YTD F2006	YTD F2005	Change	Percentage
Marketing and Sales	$2,590,737	$2,270,764	($319,973)	(14.1%)

The increase in marketing and sales costs is due to the increase in sales activity and revenue. Salary increases as well as an increase in variable compensation associated with increasing sales revenue and traction with potential Soleus customers resulted in an increase of $244,000 in marketing and sales expenses. In addition, the Company increased its participation at the largest and most important tradeshow of the year, the 3GSM World Congress Mobile Event in Barcelona, Spain, and as a result, advertising, trade show costs, and travel costs increased by $151,000. These increases were offset by savings of approximately $72,000 related to moving internet related marketing programs in-house.

Research and Development

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

	Q3 F2006	Q3 F2005	Change	Percentage
Research And Development - Soleus	$2,929,574	$879,901	($2,049,673)	(232.9%)
Other Research & Development	$61,925	$204,914	$142,989	69.8%
Total Research and Development	**$2,991,499**	**$1,084,815**	**($1,906,684)**	(175.8%)

The increase in staff in research and development working on the development of the Soleus product drove the majority of the increase in research and development. Staff working on Soleus has increased from 21 at May 31, 2005 to

67 at May 31, 2006 resulting in an increase in compensation costs of $1.5 million as well as increases in rent and office costs totaling $44,000. Expenditures in other research and development have declined due to less research and development effort relating to the Company’s hardware and Interoperability software products.

Third Quarter Fiscal 2006
Comparison of Third Quarter Fiscal 2006 and Second Quarter Fiscal 2006

	Q3 F2006	Q2 F2006	Change	Percentage
Research And Development - Soleus	$2,929,574	$2,508,878	($420,696)	(16.8%)
Other Research and Development	$61,925	$144,509	$82,584	57.1%
Total Research and Development	**$2,991,499**	**$2,653,387**	**($338,112)**	(12.7%)

The increase in staff and temporary employees as well as recruiting costs in the development of the Soleus product drove a $594,000 increase in research and development. Staff working on Soleus has increased from 45 at February 28, 2006 to 67 at May 31, 2006. This was partially offset by a decrease of $261,000 in trade show costs during the third quarter as a result of the Soleus product launch at the 3GSM World Congress taking place during the second quarter. Tradeshow activity was reduced in the third quarter resulting in the decline in tradeshow expenses. Expenditures in other research and development have declined due to less research and development effort related to the Company’s hardware and interoperability products.

Year to Date Fiscal 2006
Comparison of Year-to-Date Fiscal 2006 and Year-to-Date Fiscal 2005

	YTD F2006	YTD F2005	Change	Percentage
Research And Development - Soleus	$6,977,623	$1,674,828	($5,302,795)	(316.6%)
Other Research and Development	$315,644	$783,223	$467,579	59.7%
Total Research and Development	**$7,293,267**	**$2,458,051**	**($4,835,216)**	**(196.7%)**

The increase in staff and temporary employees in the research and development working on the development of the Soleus product drove the majority of the increase in research and development. Staff working on Soleus has increased from 35 at September 1, 2005 to 67 at May 31, 2006 resulting in an increase in compensation and recruitment costs of $3.3 million as well as increases in rent and office costs of $109,000. In addition, there were one-time costs totaling $741,000 for marketing and product management, consulting, trade show costs and travel all related to the Soleus product launch at the 3GSM World Congress Mobile Event. Reduced costs in other research and development reflect the reduction in the size of the team completing research and development in the Company’s engineering services and interoperability software business units. The level of research and development presently relating to these products is sufficient to sustain current product offerings.

Summary of Quarterly Results

$Millions	Q3 F2006	Q2 F2006	Q1 F2006	Q4 F2005	Q3 F2005	Q2 F2005	Q1 F2005	Q4 F2004
Revenue	$4.4	$4.8	$4.6	$5.4	$4.3	$4.2	$3.7	$3.8
Net Loss	($4.7)	($4.5)	($2.7)	($1.5)	($1.3)	($0.8)	($1.4)	($1.6)
Loss per Share	($0.06)	($0.08)	($0.05)	($0.03)	($0.02)	($0.01)	($0.03)	($0.04)

Due to the nature of product and customer mix as well as the ongoing volatility within the technology and telecommunications sector, both revenue and the net loss of the Company have experienced significant fluctuations over the past eight quarters. The Company continues to develop products and solutions that have helped it remain competitive in a challenging sector. There has been no evidence of a seasonality or specific industry trend with respect to operations. Financial results cannot be predicted with any certainty.

Liquidity and Capital Resources

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at May 31, 2006, the Company had cash and cash equivalents totalling approximately $26.4 million, with working capital[1] of $26.0 million as compared to cash and cash equivalents of $7.3 million and working capital of $7.8 million as at August 31, 2005.

At May 31, 2006, the Company estimates that a Canadian $0.01 increase in the exchange rate of the Canadian dollar, relative to the U.S. dollar, would result in an approximate reduction of $65,000 on earnings before income tax for the quarter.

The Company closed a public offering on March 30th 2006, and a total of 26,796,401 units were sold at an offering price of $0.90 per unit for gross proceeds of approximately $24.1 million with net proceeds of approximately $21.8 million after deducting underwriters' fees and estimated expenses.

Each unit consisted of one common share of the Company and one half of one common share purchase warrant. The units immediately severed into their constituent common shares and warrants upon closing, and as a result, an additional 26,796,401 common shares and 13,398,201 common share purchase warrants were issued by the Company on March 30, 2006. Each whole warrant entitles the holder thereof to purchase one common share at a price of $1.05 for a period of four years following the closing of the offering.

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(1) Working Capital is a non-GAAP measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. Working capital is defined as current assets less current liabilities.

The underwriters also received 1,607,784 compensation options. This equates to 6% of the aggregate number of units sold under the offering. Each compensation option is exercisable to purchase one unit at the offering price for a period of two years following the closing date of March 30th, 2006

Net proceeds from the offering will be used to fund sales, marketing and research and development related to the Company's new Soleus product, as well as for general corporate purposes.

On October 3, 2005, the Company concluded an $8.0 million debenture financing (the "Debenture Financing") with Wellington Financial Fund II ("Wellington Financial"). The financing is by way of secured debentures (the "Debentures") maturing on October 3, 2007.

Wellington Financial LP is a privately held specialty finance bridge lending, term and venture debt firm, providing debt financing for private and public companies.

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 at any time following such date which is six months from the date following the closing date (April 3, 2006), and 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. Under the terms of the debentures, the Company must maintain a minimum cash balance of $2 million and tangible net assets in excess of $500,000.

Concurrent with the financing, the Company has issued to Wellington Financial an aggregate of 3,870,968 warrants of the Company (the "Warrants"). Each 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.

The gross proceeds for the Debentures were allocated to the Debentures and the Warrants based on the relative fair value of each security at the time of issuance. Accordingly, $7,310,973 was allocated to the Debentures and $689,027 was allocated to the Warrants. The fair value of the Debentures was determined by discounting the expected future cash flows of the principal and interest payments using a discount rate of 19%, which, in management's opinion, approximates the market rate of interest for similar instruments, at the time of issue, without attached warrants. The carrying value of the Debentures will be accreted to their face value over their life to maturity (October 3, 2007). For the three and nine months ended May 31, 2006, the Company recorded $85,352 and $220,642, respectively, as accretion. The fair value of the Warrants recorded in shareholders' equity was determined using the Black-Scholes option pricing model.

The total legal, professional and transaction fees associated with the Debenture Financing were $1.0 million. Of this amount, $954,000 was recorded as deferred financing costs and $90,000 was recorded in warrants in shareholders' equity on a proportionate basis based on the relative fair values of the Debentures and the Warrants. Deferred financing costs are being amortized over the twenty four month life to maturity of the Debentures. During the three and nine months ended May 31, 2006, the Company recorded $119,000 and $318,000, respectively, of amortization on the deferred financing costs.

Third Quarter Fiscal 2006 – Cash Flows
Comparison of Third Quarter Fiscal 2006 and Third Quarter Fiscal 2005

Cash Provided by (used in):	Q3 F2006	Q3 F2005	Change
Operating Activities	($3,383,826)	($728,327)	($2,655,499)
Investing Activities	($143,266)	($134,373)	($8,893)
Financing Activities	$21,796,128	$0	$21,796,128
(Decrease) Increase In Cash and Cash Equivalents	$18,269,036	($862,700)	$19,131,736

The cash used in operating activities is attributed to spending on Soleus development by the Soleus business unit which incurred expenses of approximately $2.9 million in the third quarter.

Investing activities increased as a result of the expansion of the Company's Vancouver and Bellevue facilities.

The cash generated by financing activities relates to a public offering closed by the Company on March 30, 2006 for gross proceeds of $24.1 million and net proceeds of $21.8 million

Year-to-Date Fiscal 2006 – Cash Flows
Comparison of Year-to-Date Fiscal 2006 and Year-to-Date Fiscal 2005

Cash Provided by (used in):	YTD F2006	YTD F2005	Change
Operating Activities	($8,957,797)	($1,709,350)	($7,248,447)
Investing Activities	($678,382)	($5,424,642)	$4,746,260
Financing Activities	$28,754,473	$5,124,064	$23,630,409
Increase (Decrease) In Cash and Cash Equivalents	$19,118,294	($2,009,928)	$21,128,222

The Company ended the third quarter of fiscal 2006 with cash and cash equivalents totaling $26.4 million, as compared to $7.3 million at August 31, 2005. On March 30, 2006 the Company completed a public offering for gross proceeds of $24.1 million and net proceeds of $21.8 million. Additionally on October 3, 2005, the Company concluded an $8.0 million secured debenture financing maturing on October 3, 2007.

The cash used in operating activities is due primarily to the spending of approximately $6.9 million on Soleus development during the nine months ended May 31, 2006.

Cash used in investing activities decreased by approximately $4.7 million as the Company purchased a $5 million short term investment during the nine months ended May 31, 2005. This was not duplicated in the nine months ended May 31, 2006 as cash was invested in an interest bearing investment account. The Company invested in approximately $678,000 of equipment during the nine months ended May 31, 2006 as compared to $425,000 of equipment during the nine months ended May 31, 2005. The increased level of spending on equipment was made to support the growth of the Vancouver and Bellevue operations.

Cash provided by financing relates to the net cash receipts from the public offering, and the debenture financing in 2006 versus the 2005 rights offering. The public offering was closed in the third quarter and the debt financing was completed in the first quarter of fiscal 2006 and resulted in net cash receipts of approximately $28.8 million in fiscal 2006. The rights offering was completed in the first quarter of fiscal 2005 and resulted in a net cash receipt of approximately $5.1 million.

The Company continues to have no bank debt, off-balance sheet financing arrangements or significant capital leases. The Company has leased facilities in Canada, the United Kingdom, Singapore and the United States. Minimum lease payments are as follows:

Contractual Obligations $Millions	**Total**	**F2006**	**F2007**	**F2008**	**F2009**	**F2010**
Operating Lease Obligations	$3.6	$0.3	$1.1	$0.7	$0.8	$0.7

The Technology Partnerships Canada (“TPC”) audits that were in process in prior periods are complete and the Company is currently negotiating an extension of its TPC agreement which expired in March, 2004. The outcome of these negotiations is not known or determinable at this time accordingly no provision has been made. If the extension is granted by TPC the Company will be required to pay approximately $387,000 and the original terms and conditions will be amended. 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 and accrued approximately $354,500 in royalties.

As at May 31, 2006, the Company had 83,035,869 common shares outstanding, 5,483,213 share options outstanding and 19,680,845 outstanding warrants and underwriters options.

On an ongoing basis the Company will continue to investigate various financing options, including additional equity financings, to fund any new development strategies or material operating shortfalls. These options may, or may not, transpire depending on the availability of funds under acceptable terms and conditions as well as the requirements that may, or may not, arise due to operating activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Intrinsyc prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of consolidated financial statements in conformity with GAAP 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. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions. Significant estimates include, but are not limited to, the determination of project expenditures for contracts accounted for on the percentage of completion basis, allowance for doubtful accounts, income tax valuation allowances, goodwill impairment tests, the useful lives and valuation of intangible assets, and stock-based compensation. The Company's significant accounting policies are described in Note 2 to the August 31, 2005 consolidated financial statements.

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.

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.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year 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 when a change in tax rates is substantively enacted. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

RISKS AND UNCERTAINTIES

Due to the Company's stage of development, investment in securities of the Company may be regarded as speculative. In addition, the following factors should be considered by potential investor.

Ability to Meet the Obligations of Outstanding Debentures

The Company has outstanding secured debentures in the amount of $8.0 million maturing on October 3, 2007. The debentures have an annual interest rate of 12.5% with monthly payments of interest only until maturity, and are secured by a charge over all of the assets of Intrinsyc and its subsidiaries. Under the terms of the debentures, the Company must maintain a minimum cash balance of $2 million and tangible net assets in excess of $500,000. In the event that the Company is not able to meets its obligations under the debenture or raise capital to repay the debenture, the debenture holder has a right to all of the assets of the Company.

Additional Financing

The Company currently operates at a loss and uses cash raised in equity markets to fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering will result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests.

Research and Development

If the Company fails to develop new products, or if the products the Company develops are not successful, the Company's business could be harmed. Even if the Company does develop new products which are accepted by its target markets, the Company cannot assure that the revenue from these products will be sufficient to justify the Company's investment in research and development.

Major Industry Software Vendor Partners May Become Competitors

As the developer of Windows Mobile, Windows CE, Microsoft .NET and Symbian based software technologies, all of which the Company is reliant upon, Microsoft Company and Symbian Limited could add features to their operating systems and application product offerings that directly compete with the software products and services the Company provides. The ability of the Company's customers or potential customers to obtain software products and services directly from Microsoft Company and Symbian Limited that compete with the Company's software products and services could harm the Company's business.

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's revenue will continue to grow. As at May 31, 2006, the Company had an accumulated deficit of approximately $47.5 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results and the results of product development and sales and marketing initiatives. There can be no assurance that implementation of the Company's strategies will result in the Company becoming profitable.

Stock Price Volatility

The market price for the common shares of the Company fluctuates significantly, and these fluctuations tend to be exaggerated if the trading volume is low. The market price of the common shares may rise or fall in response to announcements of technological or competitive developments, acquisitions or strategic alliances by the Company or its competitors, and the gain or loss by the Company of significant orders or broad market fluctuations.

Dependence on Management

The Company's future success depends on the ability of the Company's management to operate effectively, both individually and as a business unit. If the Company were to lose the services of any management employees, the Company may encounter difficulties finding qualified replacement personnel and integrating them into the management business unit.

Product Development and Technological Change

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Company will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and technological innovations by others. There can be no assurance that the Company will be successful in doing this in a timely manner or at all.

The software industry is characterized by a continuous flow of improved products which render existing products obsolete. There can be no assurance that products or technologies developed by others will not render the Company's products obsolete or non-competitive.

Length of Sales Cycle

The typical sales cycle of the Company's integrated solutions is lengthy (generally between 6 and 9 months), unpredictable, and involves significant investment decisions by prospective customers, as well as education of those customers regarding the use and the benefits of the Company's products and services. The purchase of the Company's products and services is often delayed while prospective customers conduct lengthy internal reviews and obtain capital expenditure approvals. Even after deciding to purchase the Company's products or services, the Company's customers tend, in some cases, to deploy the products slowly and deliberately depending on a variety of factors, including the skill level of the customer and the status of its own technology with which the Company's products are to integrate. As a result, the Company's quarterly financial results may vary significantly.

Dependence on Market Acceptance of Mobile Devices and Inter-Operability Solutions

The market for mobile device and inter-operability software and services is emerging and the potential size of this market and the timing of its development are not well known. As a result, the Company's profit potential is uncertain and the Company's revenue may not grow as fast as the Company anticipates, if at all. The Company is dependent upon the broad acceptance by businesses and consumers of a wide variety of mobile devices as well as supporting applications, which will depend on many factors, including:

- the development of content and applications for mobile devices;
- the willingness of large numbers of businesses and consumers to use mobile devices such as smart-phones, PDAs, wireless gaming consoles, and other such specialized mobile devices such as handheld medical devices and industrial data collectors to perform functions currently carried out manually or by traditional PCs, including inputting and sharing data, communicating among users and connecting to the Internet; and
- the evolution of industry standards that facilitate the distribution of content over the Internet to these devices via wired and wireless telecommunications systems, satellite or cable.

Competition

Because of intense market competition, the Company may not succeed. Some of the Company's current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than the Company. Current and potential competitors may also have existing relationships with many of the Company's prospective customers, and prospective OEM customers may be developing products for their own use that are comparable to the Company's products. In addition, the Company expects competition to persist and intensify in the future, which could adversely affect the Company's ability to increase sales.

Sales and Marketing and Strategic Alliances

If the Company is to become financially successful, it must continue to expand its sales and distribution channels and its marketing and technology alliances. There is no assurance the Company will be able to reach agreements with additional alliance or distribution partners on a timely basis or at all, or that these partners will devote sufficient resources to advancing the Company's interests.

The Company's strategic alliances with operating system vendors, semiconductor manufacturers and systems integrators are a key part of the

Company’s overall business strategy. The Company cannot, however, be certain that it will be successful in developing new strategic relationships or that the Company’s strategic partners will view such relationships as significant to their own business or that they will continue their commitment to the Company in the future. The Company’s business, results of operation, financial condition and stock price may be materially adversely affected if any strategic partner discontinues its relationship with the Company for any reason. Additionally, the Company relies on the voluntary efforts of its strategic partners rather than compliance with contractual obligations, and there are no minimum performance requirements. Therefore, the Company cannot be certain that these relationships will be successful.

International Expansion of Business Operations

The Company plans to increase international operations, including the possible establishment of a development centre in China, in the current fiscal year. International sales and the related infrastructure support operations carry certain risks and costs such as the administrative complexities and expenses of administering a business abroad; complications in both compliance with and also unexpected changes in regulatory requirements, foreign laws, international import and export legislation, trading policies, tariffs and other barriers; potentially adverse tax consequences; and uncertainties of law and enforcement relating to the protection of intellectual property and unauthorized duplication of software. There can be no assurance that these factors will not be experienced in the future by the Company or that they will not have a material adverse impact on the Company’s business, results of operations and financial conditions.

Intellectual Property Protection

The Company's ability to compete may be affected by its ability to protect its intellectual property. It relies primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect its intellectual property. While the Company believes that its products and technologies are adequately protected against infringement, there can be no assurance of effective protection. Monitoring and identifying unauthorized use of the Company's technology is difficult, and the prohibitive cost of litigation may impair the Company's ability to prosecute any infringement. The commercial success of the Company will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being made against the Company. The Company believes that it is not infringing any intellectual property rights of third parties, but there can be no assurance that such infringement will not occur. An infringement claim against the Company by a third party, even if it is invalid, could have a material adverse effect on the Company because of the cost of defending against such a claim.

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on anticipated revenues and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Foreign Exchange Risk

A substantial portion of the Company's sales are denominated in United States dollars and are made to United States-based customers. Because the Company's financial statements are expressed in Canadian dollars, the Company is exposed to risks associated with fluctuations in the exchange rate between the United States dollar, the British Pound and the Canadian dollar. If the Canadian dollar or British Pound rise relative to the United States dollar, the Company's operating results may be adversely impacted. The Company has now implemented a foreign exchange hedging program that effectively hedges approximately 60% - 80% of its net monthly US dollar receipts.

Management of Growth

The Company's growth continues to place significant demands on its management and other resources. The Company's future results of operations will depend in part on the ability of its officers and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel.

Acquisitions

The Company has, and from time to time in the future may, acquire businesses, products or technologies that it believes compliment or expand its existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of the acquired business will not be profitable or that the attention of the Company's management will be diverted from the day-to-day operation of its business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Any acquisition could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that any acquisitions will be successfully completed or that, if one or more acquisitions are completed, the acquired businesses, products or technologies will generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Product Liability

The Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims. There can be no assurance that such provisions will protect the Company from such claims. The Company does not maintain product liability insurance. A successful product liability claim brought against the Company could have a material adverse effect upon the Company's business, results of operations and prospects.

Third Party Manufacturing

The Company depends on third party manufacturing facilities to manufacture its reference design products, which reduces the Company's control over the manufacturing process and exposes the Company to a number of risks, including:

- ❖ reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- ❖ lack of guaranteed production capacity or product supply; and
- ❖ reliance on third-party manufacturers to maintain competitive manufacturing technologies.

The Company does not typically have supply agreements with its manufacturers and instead obtains manufacturing services on a purchase-order basis. The Company's manufacturers typically have no obligation to supply the Company with any specific product, in any specific quantity or at any specific price. If the Company's manufacturers were to become unable or unwilling to continue to manufacture its products in required volumes, at acceptable quality, yields and costs, or in a timely manner, the Company's business might be harmed to the degree that its revenues are dependent on the sale of these reference designs. As a result, the Company would have to attempt to identify and qualify substitute manufacturers for its current manufacturers, which could be time consuming and difficult, and might result in unforeseen manufacturing and operations problems.

Component Suppliers

Although the Company out-sources its reference design manufacturing, it is responsible for procuring certain raw materials for its products directly. The Company's reference design products incorporate components or technologies that are only available from single or limited sources of supply. In particular, some of the Company's integrated circuits are available from a single source. In the past, certain integrated circuits used by the Company in its products have been phased out of production. When this happens, the Company attempts to purchase sufficient inventory to meet its needs until a substitute component can be incorporated into the Company's products. Nonetheless, the Company might be unable to purchase sufficient inventory to meet its demands, or the Company might incorrectly forecast its demands and purchase too many or too few components. Further, the Company's products use components that have in the past been subject to market shortages and substantial price fluctuations. From time to time, the Company has been unable to meet its orders because it was unable to purchase necessary components for its products. If the Company is unable to meet existing orders or to enter into new orders because of a shortage in components, it may lose net revenues and risk losing customers and harming its reputation in the marketplace.

Shareholders' Rights Plan

The Company has implemented a Shareholders' Rights Plan. The Shareholders' Rights Plan provides for substantial dilution to an acquirer making a take-over bid for the common shares of the Company unless the bid meets the requirements described in the Shareholders' Rights Plan. This could discourage a potential acquirer from making a take-over bid and make it more difficult for a third party to acquire control of the Company, even if such acquisition or bid would be beneficial to the Company's shareholders.

Outlook

For fiscal 2006, the Company will continue to review its operations, personnel, markets, customers and strategic vision and continue developing a strong management team, conserving cash, maintaining liquidity, thereby enabling the continuing investment in next generation technologies in the consumer and enterprise mobility and wireless markets.

For fiscal 2006, we believe, based on historical data and independent market research, that the market for mobility software and solutions, specialized devices and connected solutions will continue to evolve and expand. We believe that the current strategic direction of the Company, as well as our suite of partners and alliances, has positioned us well to capitalize on the opportunities we expect this growing market to present. We have a high degree of confidence in our business model and technology vision.

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