



Intrinsyc Software International, Inc.

Interim Financial Report

2007 Fiscal First Quarter





Intrinsic Software International, Inc.

Management's Discussion & Analysis

For the three months ended November 30, 2006



Management's Discussion & Analysis

January 11, 2007

This management's discussion and analysis covers the unaudited consolidated financial statements of Intrinsic Software International, Inc. (the "Company") as at, and for the three-month period ended November 30, 2006. Management's discussion and analysis of the financial condition and results of operations of 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 concerning anticipated developments in the Company's operations in future periods, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimates," "predicts," "potential," "targeted," "plans," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. 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. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, such as business and economic risks and uncertainties. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change. 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. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.



Overview

First Quarter Fiscal 2007 – Statement of Operations

Comparison of First Quarter Fiscal 2007 and First Quarter Fiscal 2006

	Q1 F2007	Q1 F2006	Change	Percentage Change
Revenue	\$5,021,087	\$4,552,688	\$468,399	10.3%
Gross Margin	\$2,316,214	\$1,884,002	\$432,212	22.9%
Gross Margin %	46%	41%		
Administration	\$1,123,937	\$1,388,747	\$264,810	19.1%
Marketing and Sales	\$1,332,658	\$807,399	(\$525,259)	(65.1%)
Research And Development - Soleus Development	\$2,950,281	\$1,539,173	(\$1,411,108)	(91.7%)
Other Research & Development	\$25,989	\$109,208	\$83,219	76.2%
Amortization	\$178,760	\$222,473	\$43,713	19.6%
Stock based Compensation	\$199,613	\$204,460	\$4,847	2.4%
Technology Partnerships Canada Funding Investment	\$0	\$1,173	\$1,173	100.0%
Total Operating Expenses	\$5,811,238	\$4,272,633	(\$1,538,605)	(36.0%)
Foreign Exchange (Gain) Loss	(\$249,785)	\$107,423	\$357,208	332.5%
Interest (Income)	(\$185,307)	(\$49,918)	\$135,389	271.2%
Accretion and Amortization - Long Term Debt	\$927,778	\$126,374	(\$801,404)	(634.2%)
Interest Expense-Long Term Debt	\$213,699	\$158,904	(\$54,795)	(34.5%)
Income Tax Expense (Recovery)	\$57,457	(\$1,664)	(\$59,121)	3,552.9%
Loss	\$4,258,866	\$2,729,750	(\$1,529,116)	(56.0%)
Loss Per Share	\$0.05	\$0.05	(\$0.00)	-

Overall, the increase in the loss for the first quarter of 2007, compared to the loss for the first quarter of 2006, was substantially the result of:

- The weakening value of the US dollar relative to the Canadian dollar over the last year decreased revenue in the first quarter of fiscal 2007 by approximately 5%, or \$205,000 relative to Canadian dollar revenues in the first quarter 2006. In spite of the foreign exchange impact the Company managed to grow revenue by approximately 10.3% due to the increase in the value and volume of engineering services contracts it performed in the quarter.
- The gross margin percentage increased in the first quarter of 2007 compared to the first quarter of 2006. The revenue mix of service work compared to software sales remained relatively consistent. The increase in gross margin percentage was the result of improved project execution on the Company's services agreements in the current period.
- Administrative spending decreased in the current quarter due to lower training, recruiting, temporary employee and consulting costs. These costs were required in the prior year in order to increase the scope of the Company's engineering services businesses and to provide resources needed to meet research and development milestones. These costs did not reoccur in the current quarter as the Company's staffing and expertise levels were sufficient to meet both the needs of the services business and research and development requirements.



- Sales and marketing costs increased significantly in the current period in support of the Soleus product go-to-market plan. Soleus is the Company's mobile handset platform based on Windows CE.
- Research and development spending increased in support of continued development of Soleus.
- There was a significant foreign exchange gain in the first quarter of 2007 compared to a significant loss in the first quarter of 2006. The majority of the Company's revenue and billings are denominated in US dollars, and during the first quarter of 2007, the Canadian dollar weakened substantially against the US dollar. This change resulted in the gain of approximately \$250,000. During the first quarter of 2006, the US dollar weakened relative to the Canadian dollar resulting in a foreign exchange loss of \$107,000.
- Interest income increased due to the larger cash balance held in the Company's interest bearing accounts.
- During the quarter, the Company repaid the \$8.0 million of debentures in advance of the October 2007 maturity date. As a result the Company has expensed the remaining deferred financing costs and accretion related to the debentures during the current period. As a result, an additional \$734,000 of expenses is being recorded in Accretion and Amortization expense than otherwise would have been recorded in the period.
- The Company paid \$214,000 in interest expense related to the Debentures that were repaid in the quarter. The Company does not expect to incur significant interest expense in future periods as a result of the repayment.
- Income tax expense increased as a result of the Company recording taxable income from research and development services provided by one of its subsidiaries.

First Quarter Fiscal 2007 – Cash Flows

Comparison of First Quarter Fiscal 2007 and First Quarter Fiscal 2006

Cash Provided by (used in):	Q1 F2007	Q1 F2006	Change
Operating Activities	(\$5,915,681)	(\$3,119,633)	(\$2,796,048)
Investing Activities	(\$78,311)	(\$104,450)	\$26,139
Financing Activities	(\$7,323,669)	\$7,034,876	(\$14,358,545)
Increase (Decrease) in Cash and Cash Equivalents	(\$13,317,661)	\$3,810,793	(\$17,128,454)

The Company ended the first quarter of 2007 with cash and cash equivalents totaling \$9.2 million, as compared to \$22.5 million at August 31, 2006. The decrease in cash was due substantially to the repayment of the \$8.0 million debentures and by the use of funds in operating activities primarily related to the development of the Company's Soleus product and an increased investment in working capital.

Cash used in operating activities increased by approximately \$2.8 million in the first quarter of 2007 as compared to the first quarter of 2006. This change was due primarily to the increase in research and development expenditures of approximately \$1.4 million related to development of the Company's Soleus



product as well as an increase in trade receivables of approximately \$1.0 million primarily related to a receivable due from a large service customer.

Cash used in investing activities decreased by approximately \$26,000 in the first quarter of 2007 compared to the first quarter of fiscal 2006 and relates to the purchase of equipment in both periods.

The increase in cash used in financing activities primarily reflects the repayment of the \$8.0 million debenture in the current period, and the proceeds from the issuance of the debenture in the comparative period.

RESULTS OF OPERATIONS

Revenues

Fiscal 2007

Comparison of First Quarter Fiscal 2007 and First Quarter Fiscal 2006

	Q1 F2007	Percentage of Total Revenue	Q1 F2006	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	\$352,698	7.0%	\$664,139	14.6%	(\$311,441)	(46.9%)
Software Revenue	\$439,466	8.8%	\$460,024	10.1%	(\$20,558)	(4.5%)
Services Revenue	\$4,228,923	84.2%	\$3,428,525	75.3%	\$800,398	23.3%
Total Revenue	\$5,021,087	100.0%	\$4,552,688	100.0%	\$468,399	10.3%

Hardware revenues for the first quarter of 2007, compared to the first quarter of 2006 decreased substantially as a result of one large sale for approximately \$246,000 in the first quarter 2006 that did not reoccur in the first quarter of 2007. Software revenue for the first quarter of 2007, compared to the first quarter of 2006 decreased marginally as the volume and size of interoperability software product transactions declined in the quarter due to the maturation of the markets into which the Company sells this software. The increase in service revenue during the first quarter of 2007 compared to the first quarter of 2006 was attributed to successfully securing and executing projects focused on mobility opportunities.

There was approximately \$561,000 of unbilled revenue included in revenue for the first quarter of 2007 and reflected in the November 30, 2006 accounts receivable balance. This unbilled revenue is related to long time customers with which the Company has established business relationships.

There were two significant customers that accounted for 45% of revenue (25%, and 20%, respectively) in the first quarter of 2007. The customer that accounted for 25% of revenue in the first quarter of 2007, accounted for approximately 4% of revenue in the first quarter of 2006 while the customer that accounted for 20% of revenue in the first quarter of 2007 accounted for approximately 14% of revenue during the first quarter of 2006.



Gross Margins

Gross margin percentages on licensing revenue of approximately 75% to 85% are significantly higher than the gross margin percentages obtained on services revenue of 30% to 45%. Overall gross margin percentages are a blend of these margin percentages that is weighted towards the services gross margin percentage.

Fiscal 2007

Comparison of First Quarter Fiscal 2007 and First Quarter Fiscal 2006

	Q1 F2007	Q1 F2006	Change	Percentage
Gross Margin	\$2,316,214	\$1,884,002	\$432,212	22.9%
Gross Margin %	46%	41%		

The increase in gross margin percentage in the first quarter of 2007, as compared to the first quarter of 2006, was a result of successfully securing and executing projects focused on mobility opportunities. During the first quarter of 2006, the Company performed a significant amount of work for a customer that subsequently had financial difficulty. The Company ultimately did not get paid for this work and did not include this work in revenue for the first quarter of 2006. This caused the gross margin percentage in the first quarter of 2006 to be lower than it would have otherwise been. The ratio of services revenue to software revenue remained relatively consistent in the comparative quarters.

Administration Expense

Fiscal 2007

Comparison of First Quarter Fiscal 2007 and First Quarter Fiscal 2006

	Q1 F2007	Q1 F2006	Change	Percentage
Administration Expense	\$1,123,937	\$1,388,747	\$264,810	19.1%

Administrative costs for the first quarter of 2007 decreased as compared to the first quarter of 2006 due to the following:

- Recruiting, temporary employee and consulting costs decreased by \$112,000 during the current quarter. These costs declined as staffing was sufficient to meet both the needs of the engineering services business and research and development requirements.
- Training costs decreased by \$112,000 in the first quarter of 2007. In the first quarter of 2006 the Company engaged in training not repeated in the current quarter for approximately 20 new employees to support the growth in the engineering services business.



Marketing and Sales Expenses

Fiscal 2007

Comparison of First Quarter Fiscal 2007 and First Quarter Fiscal 2006

	Q1 F2007	Q1 F2006	Change	Percentage
Marketing and Sales	\$1,332,658	\$807,399	(\$525,259)	(65.1%)

Marketing and sales costs increased in the first quarter of 2007 compared to the first quarter of 2006 due to more activity in support of release of the Company's Soleus product. Salaries and related costs increased \$269,000, tradeshow costs have increased \$43,000, and travel expenses increased \$105,000 all as a result of higher headcount and more activity in the marketing and sales group in first quarter of 2007 to support the Soleus go-to-market strategy.

Research and Development

Fiscal 2007

Comparison of First Quarter Fiscal 2007 and First Quarter Fiscal 2006

	Q1 F2007	Q1 F2006	Change	Percentage
Research And Development - Soleus	\$2,950,281	\$1,539,173	(\$1,411,108)	(91.7%)
Other Research & Development	\$25,989	\$109,208	\$83,219	76.2%
Total Research and Development	\$2,976,270	\$1,648,381	(\$1,327,889)	(80.6%)

Research and development spending increased in the first quarter of 2007 compared to the first quarter of 2006, due mainly to development efforts directed at the Soleus mobile handset platform. This increase was partially offset by a reduction in research and development spending on the Company's hardware and interoperability software products. Selected members of the Vancouver research and development and engineering services team are now working on the development of Soleus and are no longer working on the Company's other product and service offerings. The level of spending on hardware and interoperability product development continues to be sufficient to maintain the marketability of current offerings. The Company expects to continue to increase its spending on the development of Soleus for the remainder of 2007.

Summary of Quarterly Results

\$Millions	Q1 F2007	Q4 F2006	Q3 F2006	Q2 F2006	Q1 F2006	Q4 F2005	Q3 F2005	Q2 F2005
Revenue	\$5.0	\$4.9	\$4.4	\$4.8	\$4.6	\$5.4	\$4.3	\$4.2
Loss	(\$4.3)	(\$4.4)	(\$4.7)	(\$4.5)	(\$2.7)	(\$1.5)	(\$1.3)	(\$0.8)
Loss per Share	(\$0.05)	(\$0.05)	(\$0.06)	(\$0.08)	(\$0.05)	(\$0.03)	(\$0.02)	(\$0.01)

Both revenues and the losses of the Company have experienced significant fluctuations over the past eight quarters, due to the nature of product and customer mix, as well as the ongoing volatility within the technology and telecommunications sector. The Company continues to develop products and



solutions that have helped it remain competitive in a challenging and dynamic sector. There has been no evidence of seasonality or a specific industry trend with respect to operations. Accordingly financial results cannot be predicted with any certainty.

Liquidity and Capital Resources

Cash Provided by (used in):	Q1 F2007	Q1 F2006	Change
Operating Activities	(\$5,915,681)	(\$3,119,633)	(\$2,796,048)
Investing Activities	(\$78,311)	(\$104,450)	\$26,139
Financing Activities	(\$7,323,669)	\$7,034,876	(\$14,358,545)
Increase (Decrease) in Cash and Cash Equivalents	(\$13,317,661)	\$3,810,793	(\$17,128,454)

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at November 30, 2006, the Company had cash and cash equivalents totaling approximately \$9.2 million, with working capital¹ of \$10.8 million as compared to cash and cash equivalents of \$22.5 million and working capital of \$22.0 million as at August 31, 2006.

At November 30, 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 \$10,000 on earnings before income tax for the quarter.

The decrease in cash and cash equivalents is due to the advance repayment of the \$8.0 million debentures during the current quarter, an increase in operating activities in support of the development of the Company's Soleus product and the increased investment in working capital.

Cash used in operating activities increased by approximately \$2.8 million in the first quarter of 2007 as compared to the first quarter of 2006. This change was due primarily to the approximately \$1.4 million increase in research and development expenditure in support of the Company's Soleus product as well as an increase in trade receivables of approximately \$1.0 million primarily related to a receivable due from a large service customer.

Cash used in investing activities decreased by approximately \$26,000 in the first quarter of 2007 compared to the first quarter of 2006. In both periods funds used in investing activities relate to the purchase of equipment.

The increase in cash used in financing activities reflected the \$8.0 million repayment of the debenture in the current period and the issuance of the debenture net of associated fees in the comparative period.

⁽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 Company continues to have no other long-term liabilities, 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	F2007	F2008	F2009	F2010	F2011	F2012
Operating Lease Obligations	\$6.0	\$1.0	\$1.3	\$1.5	\$1.2	\$0.6	\$0.4

As set out in the consolidated financial statements as at, and for the three month periods ended November 30, 2006 and 2005, the Technology Partnerships Canada (“TPC”) audit of the Company’s TPC submissions is 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 and 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 from TPC and paid approximately \$491,183 in royalties to TPC.

As at January 11, 2007 the Company had 83,043,369 common shares outstanding, 7,004,325 share options outstanding and 19,680,845 outstanding warrants.

On an ongoing basis the Company will continue to investigate various financing options, including additional 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, 2006 annual 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 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 the 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.

Derivative Financial Instruments

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



Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. Derivatives that are not subject to hedge accounting are recorded on the consolidated balance sheet with the changes in fair value being recorded in the consolidated statement of operations for each period. For the three-months ended November 30, 2006, all derivative financial instruments met the criteria for hedge accounting.

Allowance for Doubtful Accounts

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

Stock-based Compensation

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

Foreign Exchange Forward Contracts



The Company uses foreign exchange forward contracts to hedge transactions denominated in United States dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements, most significantly in the United States. As at November 30, 2006 the Company had no outstanding forward exchange contracts to sell United States dollars.

RISKS AND UNCERTAINTIES

An investment in the securities of the Company may be regarded as speculative due to the Company's stage of development. Risk factors relating to the Company could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. Prospective investors should carefully consider these risks.

The following are some of the risks that are associated with the Company's business and operations and should be carefully considered by any potential investor in the Company's shares:

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 with 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 favourable 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

The Company relies on software developed by Microsoft and Symbian in order to develop and market its products and services. As the developer of Windows Mobile, Windows CE, Microsoft .NET and Symbian-based software technologies, all of which the Company is reliant upon, Microsoft or Symbian or both 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 or Symbian 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 November 30, 2006, the Company had an accumulated deficit of approximately \$56.2 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 operation results in the results of product development and sales and marketing initiatives. There can be no assurances 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 group. 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 group.

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.



Sales and Marketing and Strategic Alliances

If the Company is to become 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, independent software vendors 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 operations, 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.

Length of Sales Cycle

The typical sales cycle of the Company's products and services is lengthy (generally between six and nine 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 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.

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 costs of defending against such a claim.

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.

International Expansion of Business Operations

The Company plans to increase international operations, including the possible establishment of a sales office and development centre in Asia, 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 condition.

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

The market for mobile device and interoperability 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 business and consumers of mobile devices, particularly feature phones, 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 consumers and businesses to use mobile devices such as feature phones, smartphones, PDAs, wireless gaming consoles, and other such specialized mobile devices such as set top boxes, handheld medical devices and industrial data collectors to perform functions currently carried out manually, by traditional PCs or by



other electronic devices, including entertainment, personal communication, inputting and sharing data 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.

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 operations are based in Canada and the United Kingdom, 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 rises relative to the United States dollar, the Company's operating results may be adversely impacted. The Company has a foreign exchange hedging program that effectively hedges approximately 60% to 80% of its net monthly United States dollar receipts.

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.

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 complement 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.

Shareholder Rights Plan

An amended Shareholder Rights Plan (the "Plan") was approved by the Company's shareholders on December 13, 2006. The plan is still subject to approval by the Board of Directors and regulatory authorities. The 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 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. The Plan will expire on the termination of the Annual Meeting the Shareholders in the year 2009.

Disclosure Controls

The Company has established disclosure controls and procedures to ensure that information disclosed in the MD&A and the related financial statements was properly recorded, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer and Chief Financial Officer have evaluated and are satisfied with the effectiveness of the these disclosure controls and procedures for the period ending November 30, 2006.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



Outlook

In fiscal 2006, the Company continued to review and re-structure its operations, personnel, markets, customers and strategic vision. The Company has taken significant steps to develop a strong management team, conserve cash, maintain liquidity and ensure the continuing investment in high growth, next generation technologies in the consumer and enterprise mobility and wireless markets.

For fiscal 2007, the Company's management believes that the market for mobility software and solutions, specialized devices and connected solutions will continue to evolve and expand. Management believes that the current strategic direction of the Company, as well as its suite of partners and alliances, has positioned it well to capitalize on the opportunities it expects this growing market to present. Management has a high degree of confidence in its business model and technology vision.

The Company will continue to invest in technology, people, markets and key partnerships with significant industry participants.



Consolidated Financial Statements
Intrinsyc Software International, Inc.

Unaudited three months
ended November 30, 2006 and November 30, 2005

Intrinsyc Software International, Inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	November 30, 2006 \$	August 31, 2006 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	9,169,415	22,487,076
Accounts receivable <i>[note 4]</i>	4,979,237	3,789,743
Inventory	150,084	110,996
Prepaid expenses - current	398,232	385,816
Total current assets	14,696,968	26,773,631
Prepaid expenses	185,228	61,769
Equipment <i>[note 13]</i>	1,339,215	1,360,832
Goodwill	14,189,478	14,189,478
Intangible assets	477,288	556,120
Deferred financing costs <i>[note 7]</i>	--	516,599
Total assets	30,888,177	43,458,429
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,094,368	4,010,542
Taxes payable	162,190	218,912
Deferred revenue	649,252	542,515
Total current liabilities	3,905,810	4,771,969
Debentures <i>[note 7]</i>	--	7,617,946
Future income taxes	202,761	229,655
Total liabilities	4,108,571	12,619,570
Contingencies and commitments <i>[note 9]</i>		
Shareholders' equity		
Share capital <i>[note 11]</i>	74,623,739	74,623,739
Warrants and underwriters' options <i>[notes 6, 7 and 11]</i>	5,229,997	5,229,997
Contributed surplus <i>[note 12]</i>	3,151,488	2,951,875
Cumulative translation adjustment	(27,792)	(27,792)
Deficit	(56,197,826)	(51,938,960)
Total shareholders' equity	26,779,606	30,838,859
Total liabilities and shareholders' equity	30,888,177	43,458,429

See accompanying notes to unaudited interim consolidated financial statements

On behalf of the Board:



Director



Director

Intrinsyc Software International, Inc.

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

(Unaudited)

	Three months ended November 30	
	2006 \$	2005 \$
Revenues <i>[note 13]</i>	5,021,087	4,552,688
Cost of sales	2,704,873	2,668,686
	2,316,214	1,884,002
Expenses		
Administration	1,123,937	1,388,747
Marketing and sales	1,332,658	807,399
Research and development	2,976,270	1,648,381
Amortization <i>[note 5]</i>	178,760	222,473
Stock-based compensation <i>[notes 11 and 12]</i>	199,613	204,460
Technology Partnerships Canada Funding Investment <i>[note 8]</i>	--	1,173
	5,811,238	4,272,633
Loss before other expense (income) and income taxes	3,495,024	2,388,631
Other expense (income)		
Foreign exchange loss (gain)	(249,785)	107,423
Interest income	(185,307)	(49,918)
Accretion and amortization – long term debt <i>[note 7]</i>	927,778	126,374
Interest expense – long term debt <i>[note 7]</i>	213,699	158,904
	706,385	342,783
Loss before income taxes	4,201,409	2,731,414
Income tax expense (recovery)		
Current	86,449	21,988
Future	(28,992)	(23,652)
	57,457	(1,664)
Loss for the period	4,258,866	2,729,750
Deficit, beginning of period	51,938,960	35,545,626
Deficit, end of period	56,197,826	38,275,376
Loss per share (basic and diluted)	0.05	0.05
Weighted average number of shares outstanding	83,043,369	56,234,336

See accompanying notes to unaudited interim consolidated financial statements

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended November 30	
	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Loss for the period	(4,258,866)	(2,729,750)
Items not involving cash		
Amortization	178,760	222,473
Future income taxes	(26,894)	(23,652)
Stock-based compensation	199,613	204,460
Accretion and amortization – long term debt	222,322	126,374
Changes in non-cash operating working capital		
Accounts receivable	(1,189,494)	(480,969)
Inventory	(39,088)	2,499
Prepaid expenses	(135,875)	(28,849)
Accounts payable and accrued liabilities	(916,174)	(313,032)
Taxes payable	(56,722)	(11,063)
Deferred revenue	106,737	(88,124)
Cash used in operating activities	(5,915,681)	(3,119,633)
INVESTING ACTIVITIES		
Purchase of equipment	(78,311)	(104,450)
Cash used in investing activities	(78,311)	(104,450)
FINANCING ACTIVITIES		
Issuance of common shares	--	1,950
Debentures <i>[note 7]</i>	(8,000,000)	8,000,000
Debentures issuance costs <i>[note 7]</i>	(29,125)	(967,074)
Accretion and amortization realized on early redemption of debentures <i>[note 7]</i>	705,456	--
Cash (used in) provided by financing activities	(7,323,669)	7,034,876
Increase (decrease) in cash and cash equivalents	(13,317,661)	3,810,793
Cash and cash equivalents, beginning of period	22,487,076	7,318,210
Cash and cash equivalents, end of period	9,169,415	11,129,003
Supplementary information		
Interest paid	213,699	160,888
Income taxes paid	211,076	16,236

See accompanying notes to unaudited interim consolidated financial statements

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 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, on the basis that the Company is a going concern which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations applied on a basis consistent with the audited consolidated annual financial statements for the year ended August 31, 2006. 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, 2006.

The Company has experienced recurring operating losses accumulating a deficit of \$56,197,826. The ability of the Company to continue as a going concern is uncertain and is dependent upon achieving a profitable level of operations and on obtaining additional financing to support ongoing research and development of its Soleus product. These financial statements do not reflect any adjustments related to the carrying values and classification of assets and liabilities should the company be unable to continue as a going concern.

The preparation of these unaudited interim consolidated 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 month period ended November 30, 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

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

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 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 November 30, 2006 [August 31, 2006 – 6.0%]. The line is collateralized and dependant upon the Company maintaining a \$1,050,000 Guaranteed Investment Certificate of Deposit. As at November 30, 2006 and August 31, 2006 the Company did maintain the required \$1,050,000 Guaranteed Investment Certificate of Deposit and it has been included in Cash and cash equivalents line of the Balance Sheet. There was no borrowing outstanding against the operating line of credit as at November 30, 2006 [August 31, 2006 - Nil]. The Company also has a US chequing account with an overdraft limit that is collateralized by restricted cash in the amount of \$14,300 (\$12,500 USD). There was no borrowing outstanding against the overdraft as at November 30, 2006 [August 31, 2006 – Nil].

4. ACCOUNTS RECEIVABLE

	November 30, 2006 \$	August 31, 2006 \$
Trade and miscellaneous receivables	4,418,333	3,129,351
Unbilled revenue	560,904	660,392
	4,979,237	3,789,743

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

5. AMORTIZATION

	Three Months Ended November 30	
	2006	2005
	\$	\$
Equipment	99,927	84,902
Intangible assets	78,833	137,571
	178,760	222,473

6. 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 \$2,344,984 of cash underwriters' fees and expenses resulting in net cash proceeds of \$21,771,777.

The units were divided 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 ("underwriters' 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 30, 2006. The underwriters' 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.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

7. 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 was by way of secured Debentures (the "Debentures") maturing on October 3, 2007. 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 fair value of the Warrants was determined using the Black-Scholes Option Pricing Model and recorded in shareholders' equity.

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. On November 17, 2006, the Company exercised its right and repaid the Debentures and accrued interest to the payment date in full.

The carrying value of the Debentures was being accreted to their face value over their life to maturity (October 3, 2007). On repayment, the remaining amount was fully accreted as the Debentures were paid in full on that date. For the three months ended November 30, 2006, the Company recorded \$382,054 [November 30, 2005 - \$52,726] as accretion expenses. Of this amount, \$308,072 would have been accreted over the remaining period to maturity if the Debentures had not been repaid.

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 offset against warrants in shareholders' equity on a proportionate basis based on the relative fair value of the Debentures and the Warrants resulting in a net valuation of the warrants of \$599,143. Deferred financing costs were being amortized over the twenty four month life to maturity of the Debentures. As the Debentures were paid in full on November 17, 2006, the remaining balance was expensed in full. During the three months ended November 30, 2006, the Company recorded \$545,724 [November 30, 2005 - \$73,648] of amortization on the deferred financing costs. Of this amount, \$29,125 were additional legal, professional and transaction fees related to the repayment and \$397,384 were deferred financing costs which would have been recorded over the period of December 2006 to October 2007 if the Debentures had not been repaid.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

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

	Three Months Ended November 30	
	2006	2005
	\$	\$
Non-cash accretion of debentures from carrying value to face value	73,982	52,726
Non-cash accretion realized due to early payment of debentures	308,072	--
Non-cash amortization of debt financing charges	119,215	73,648
Non-cash amortization realized due to early payment of debentures	397,384	--
Additional legal, professional and transaction fees	29,125	--
	927,778	126,374
Cash interest expense	213,699	158,904
	1,141,477	285,278

8. 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.

All Government of Canada 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 this \$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 from TPC and paid and accrued approximately \$491,183 to TPC in royalties.

9. COMMITMENTS AND CONTINGENCIES

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

The Company has lease commitments for office premises and equipment with remaining terms of up to six 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 six fiscal years are approximately as follows:

	\$
2007 - remainder	1,015,000
2008	1,334,000
2009	1,458,000
2010	1,223,000
2011	557,000
2012	423,000
	<u>6,010,000</u>

10. EMPLOYEE PENSION CONTRIBUTIONS

	Three Months Ended November 30	
	2006	2005
	\$	\$
Benefit costs	160,922	123,528

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

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

11. SHARE CAPITAL

Authorized

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

Issued

	Number of common shares	Amount \$
Outstanding, August 31 and November 30, 2006	83,043,369	74,623,739

Share option plan

Under the terms of the Company's employee share option plan, the Board of Directors may grant options to employees, officers and directors. The plan provides for the granting of options at the closing price of the Company's stock prior to the grant date. Options granted on or after May 11, 1999 and before April 5, 2001 generally vest over three years with the first 1/3 vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five year term. The Company has reserved 11,095,774 options for issuance pursuant to its employee share option plan. A total of 4,109,024 options have been exercised to-date leaving a total of 6,986,750 options available for issuance, of which 6,219,775 are outstanding as at November 30, 2006.

Subsequent to November 30, 2006, the Company's shareholders approved an amendment to the employee share option plan to increase the number of reserved options for issuance to 13,395,774. As 4,109,024 options have been exercised to-date, the total options available for issue is 9,286,750.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

11. SHARE CAPITAL (cont'd.)

A summary of the Company's share option activity for the three months ended November 30, 2006 is as follows:

	<u>Outstanding options</u>	
	Number of	Weighted
	common shares	average
		exercise price
		\$
Outstanding, August 31, 2006	6,374,413	0.97
Options granted	340,875	0.41
Options cancelled	(495,513)	1.43
Outstanding, November 30, 2006	6,219,775	0.90

The following table summarizes the share options outstanding at November 30, 2006:

<u>Options outstanding</u>				<u>Options exercisable</u>	
Range of	Number of	Weighted	Weighted	Number	Weighted
exercise	common	average	average	Exercisable	average
price	shares	remaining	exercise		exercise price
\$		contractual	price		\$
		life	\$		
0.39 – 0.74	1,703,945	3.16	0.53	930,963	0.55
0.75 – 1.10	3,056,430	3.65	0.89	1,174,751	0.95
1.11 – 3.21	1,459,400	2.55	1.36	796,231	1.45
	6,219,775	3.26	0.90	2,901,945	0.96

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:

	<u>Three Months Ended</u>	
	<u>November 30</u>	
	<u>2006</u>	<u>2005</u>
Expected life in years	4.00	4.00
Risk-free interest rate	4.11%	3.84%
Volatility	84.7%	170.9%
Dividend yield	0%	0%

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

11. SHARE CAPITAL (cont'd.)

Warrants & Underwriters' Options

	Outstanding warrants		
	Number of warrants and underwriters' options	Weighted average exercise price \$	Amount \$
Warrants [note 7]	3,870,968	0.62	599,143
Warrants [note 6]	13,398,201	1.05	4,084,584
Underwriters' compensation options [note 6]	1,607,784	0.90	391,711
Underwriters' compensation warrants [note 6]	803,892	1.05	154,559
Outstanding, August 31 and November 30, 2006	19,680,845	0.95	5,229,997

12. CONTRIBUTED SURPLUS

	Three Months Ended November 30	
	2006 \$	2005 \$
Contributed surplus – opening balance	2,951,875	1,896,760
Stock-based compensation expense	199,613	204,460
Contributed surplus – closing balance	3,151,488	2,101,220

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

13. SEGMENTED INFORMATION

Operating segments

The Company operates in the sale and service of mobility and/or embedded hardware and software solutions segment 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 and intangibles are located in Canada. The Company's equipment is located as follows:

	November 30, 2006 \$	August 31, 2006 \$
United States	272,579	280,828
Canada	957,779	963,623
Europe	108,857	116,381
	1,339,215	1,360,832

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

	Three Months Ended November 30	
	2006 \$	2005 \$
United States	2,951,095	2,778,365
Canada	365,249	435,096
Europe	1,681,104	1,114,840
Other	23,639	224,387
	5,021,087	4,552,688

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended November 30, 2006
Unaudited

Significant customers

	% of Sales Three Months Ended November 30		% of Accounts Receivable November 30
	2006	2005	2006
Customer 1	25%	4%	33%
Customer 2	20%	14%	14%
Total	45%	18%	47%

14. COMPARATIVE FIGURES

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