



Intrinsic Software International, Inc.

Interim Financial Report

2007 Fiscal Second Quarter





Intrinsic Software International, Inc.

Management Discussion & Analysis

Second Quarter Fiscal 2007



Management's Discussion & Analysis

April 10, 2007

This management discussion and analysis covers our unaudited interim consolidated financial statements as at, and for the three and six month periods ended February 28, 2007. Management's discussion and analysis of the financial condition and results of operations of Intrinsic 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 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

Second Quarter Fiscal 2007 – Statement of Operations

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

	Q2 F2007	Q2 F2006	Change	Percentage Change
Revenue	\$5,036,431	\$4,792,488	\$243,943	5.1%
Gross Margin	\$2,482,273	\$1,610,855	\$871,418	54.1%
Gross Margin %	49%	34%		
Administration	\$1,411,021	\$1,360,608	(\$50,413)	(3.7%)
Marketing and Sales	\$1,696,643	\$883,517	(\$813,126)	(92.0%)
Research And Development - Soleus Development	\$3,300,680	\$2,508,878	(\$791,802)	(31.6%)
Other Research & Development	\$1,022	\$144,509	\$143,487	99.3%
Amortization	\$212,579	\$430,722	\$218,143	50.6%
Stock based Compensation	\$210,038	\$301,684	\$91,646	30.4%
Technology Partnerships Canada Funding Investment	\$1,725	\$0	(\$1,725)	-
Total Operating Expenses	\$6,833,708	\$5,629,918	(\$1,203,790)	(21.4%)
Foreign Exchange (Gain) Loss	(\$174,515)	\$89,136	\$263,651	295.8%
Interest Income	(\$57,069)	(\$67,757)	(\$10,688)	(15.8%)
Accretion and Amortization - Long Term Debt	\$0	\$207,609	\$207,609	100.0%
Interest Expense-Long Term Debt	\$0	\$246,575	\$246,575	100.0%
Income Tax Expense	\$126,890	\$34,451	(\$92,439)	(268.3%)
Loss	\$4,246,741	\$4,529,077	\$282,336	6.2%
Loss Per Share	\$0.05	\$0.08	\$0.03	37.5%

The improvement in revenues in the second quarter of fiscal 2007, compared to the second quarter of fiscal 2006 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.

The decrease in the net loss for the second quarter of fiscal 2007, compared to the second quarter of fiscal 2006, was substantially the result of:

- The increase in gross margin percentage, which resulted from improved execution on our engineering services contracts. In the second quarter of 2006 the company entered into a single significant contract that was priced aggressively and resulted in the Company realizing lower margins in the quarter.
- The increase in administration expense is largely due to the Company entering into a consulting agreement with a retiring executive during the quarter.
- 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 software product based on Windows CE. Salaries increased as did variable compensation associated with increased staffing. Additionally the Company spent a significant amount during the second quarter attending an industry tradeshow. This tradeshow was classified as an R&D expense in the prior year as the product it related to was in the pre-commercialization phase.
- 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 45 at February 28, 2006 to 78 at February 28, 2007 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 a reduction in 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 decreased compared with the three months ended February 28, 2006. During the three months ended February 28, 2006 the Company incurred a \$196,000 write off of an intangible asset that did not reoccur during the current period. This caused the large decline in amortization. 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 decrease in stock based compensation expense is due to an increase in the amount of fully vested options in the current year.
- The impact of the strengthening of the US dollar in relation to the Canadian dollar during the three months ended February 28, 2007 caused the foreign exchange gain of approximately \$175,000 during the three months ended February 28, 2007. The Company has a hedging program in place which ensures that hedges are in place for approximately 60% to 80% of its net monthly US dollar cash inflows against the Canadian dollar.
- Interest income of approximately \$57,000 was earned during the three months ended February 28, 2007 as compared to interest income of approximately \$68,000 for the three months ended February 28, 2006. Interest is earned on the Company's cash balances.
- The Company incurred no cash interest expense, and there was not any accretion and amortization of deferred financing charges, relating to the Wellington Debenture Financing as the debentures were repaid during the three months ended November 30, 2006.
- The change in foreign exchange rates during the relative periods did not have a material impact on the financial results of the Company.
- The increase in the income tax expense relates to the Company's international operating structure.



Second Quarter Fiscal 2007 – Statement of Operations

Comparison of Second Quarter Fiscal 2007 and First Quarter Fiscal 2007

	Q2 F2007	Q1 F2007	Change	Percentage Change
Revenue	\$5,036,431	\$5,021,087	\$15,344	0.3%
Gross Margin	\$2,482,273	\$2,316,214	\$166,059	7.2%
Gross Margin %	49%	46%		
Administration	\$1,411,021	\$1,123,937	(\$287,084)	(25.5%)
Marketing and Sales	\$1,696,643	\$1,332,658	(\$363,985)	(27.3%)
Research And Development - Soleus Development	\$3,300,680	\$2,950,281	(\$350,399)	(11.9%)
Other Research & Development	\$1,022	\$25,989	\$24,967	96.1%
Amortization	\$212,579	\$178,760	(\$33,819)	(18.9%)
Stock based Compensation	\$210,038	\$199,613	(\$10,425)	(5.2%)
Technology Partnerships Canada Funding Investment	\$1,725	\$0	(\$1,725)	-
Total Operating Expenses	\$6,833,708	\$5,811,238	(\$1,022,470)	(17.6%)
Foreign Exchange Gain	(\$174,515)	(\$249,785)	(\$75,270)	(30.1%)
Interest Income	(\$57,069)	(\$185,307)	(\$128,238)	(69.2%)
Accretion and Amortization - Long Term Debt	\$0	\$927,778	\$927,778	100.0%
Interest Expense-Long Term Debt	\$0	\$213,699	\$213,699	100.0%
Income Tax Expense	\$126,890	\$57,457	(\$69,433)	(120.8%)
Loss	\$4,246,741	\$4,258,866	\$12,125	0.3%
Loss Per Share	\$0.05	\$0.05	\$0.00	0.0%

The revenue for the second quarter was marginally higher than first quarter. The Company continued to execute well on its engineering services contracts in the second quarter of the year, and as a result, revenue has remained consistent with the first quarter.

The marginal decrease in the net loss for the second quarter of fiscal 2007, compared to the first quarter of fiscal 2007 was substantially the result of:

- The increase in gross margin. Gross margin was positively impacted by effective execution on the Company's engineering services contracts. The mix of service revenue versus software revenue remained relatively consistent with the prior quarter.
- Administration expenses were higher in the second quarter as compared to the prior quarter due to a consulting agreement entered into with a former executive during the quarter.
- Sales and marketing costs increased significantly in the current quarter in support of the Soleus product go-to-market plan. Soleus is the Company's mobile handset platform software product based on Windows CE. Salaries increased as did variable compensation associated with increased staffing. The Company also spent a significant amount during the second quarter attending an industry tradeshow (3GSM World Congress).
- An increase in staff costs, partially offset by a decrease in consulting expenses in the Soleus business unit drove a \$350,000 increase in Soleus research and development expenses.
- Interest income of approximately \$57,000 was earned during the three months ended February 28, 2007 as compared to interest income of



approximately \$185,000 for the three months ended November 30, 2006. Cash balances during the quarter ended February 28, 2007 decreased substantially due to the Company's repayment of the outstanding \$8.0 million debentures as well as cash used in operations, resulting in the decrease in interest income during the second quarter.

- Cash interest expense, accretion, and amortization of deferred financing charges relate to the Wellington debt financing completed in October 2005. As the debentures were repaid in the first quarter of this year these expenses are \$0 for the three months ended February 28, 2007.
- Amortization expense increased in the three months ended February 28, 2007 as compared to the three months ended November 30, 2006 as a result of an increase in the level of equipment employed in the Company's operations.
- Stock based compensation increased during the three months ended February 28, 2007 as compared to the three months ended November 30, 2006 due to an increase in the number of options issued in the current period.
- The increase in the income tax expense relates to the Company's international operating structure.

Year-to-Date Fiscal 2007 – Statement of Operations

Comparison of Year-to-Date Fiscal 2007 and Fiscal 2006

	YTD F2007	YTD F2006	Change	Percentage Change
Revenue	\$10,057,518	\$9,345,176	\$712,342	7.6%
Gross Margin	\$4,798,487	\$3,494,857	\$1,303,630	37.3%
Gross Margin %	48%	37%		
Administration	\$2,534,958	\$2,749,355	\$214,397	7.8%
Marketing and Sales	\$3,029,301	\$1,690,916	(\$1,338,385)	(79.2%)
Research And Development - Soleus Development	\$6,250,961	\$4,048,051	(\$2,202,910)	(54.4%)
Other Research & Development	\$27,011	\$253,717	\$226,706	89.4%
Amortization	\$391,339	\$653,195	\$261,856	40.1%
Stock based Compensation	\$409,651	\$506,144	\$96,493	19.1%
Technology Partnerships Canada Funding Investment	\$1,725	\$1,173	(\$552)	(47.1%)
Total Operating Expenses	\$12,644,946	\$9,902,551	(\$2,742,395)	(27.7%)
Foreign Exchange (Gain) Loss	(\$424,300)	\$196,559	\$620,859	315.9%
Interest Income	(\$242,376)	(\$117,675)	\$124,701	106.0%
Accretion and Amortization - Long Term Debt	\$927,778	\$333,983	(\$593,795)	(177.8%)
Interest Expense-Long Term Debt	\$213,699	\$405,479	\$191,780	47.3%
Income Tax Expense	\$184,347	\$32,787	(\$151,560)	462.3%
Loss	\$8,505,607	\$7,258,827	(\$1,246,780)	(17.2%)
Loss Per Share	\$0.10	\$0.13	\$0.03	23.1%

Overall, the increase in the net loss for year-to-date fiscal 2007, compared to the net loss for year-to-date fiscal 2006, was substantially the result of:

- The increase in the fiscal 2007 year-to-date revenue was the result of several significant engineering services contracts the Company has entered into, particularly related to Microsoft's Windows Mobile product.
- The year to date gross margin percentage increased in 2007 compared to the prior year due to improved project execution on the Company's



services agreements in the current period. The revenue mix of service work compared to software sales remained relatively consistent.

- The decrease in administration expense was largely due to the company incurring costs in the prior period to support the headcount increases in the engineering services and Soleus business units that were not duplicated in the current period. In addition, legal and consulting expenses were higher in the prior period as the Company established a framework for business in Asian jurisdictions. The Company also experienced a decrease in bad debts expense during the current period.
- 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 software product based on Windows CE. Salaries, variable compensation and travel associated with increased staffing all increased. Additionally the Company spent a significant amount during the current period attending an industry tradeshow (3GSM World Congress). This tradeshow was classified as an R&D expense in the prior year as Soleus, the product it related to, was in a pre-commercialization phase.
- The increase in staff and temporary employees in the Soleus business unit working on the development of the Soleus product drove the majority of the increase in Soleus research and development expense. Staff working on Soleus has increased from 45 as at February 28, 2006 to 78 at February 28, 2007 resulting in an increase in compensation costs as well as increases in rent and office costs. These costs were partially offset by a decrease in costs incurred in the prior year relating to attendance at an industry tradeshow (3GSM World Congress) that were made in support of Soleus which was in the pre-commercialization stage in the prior year. The current year's expense for this tradeshow is included in marketing and sales.
- Reduced costs in other research and development reflect a reduction in the size of the team completing research and development projects related to the Company's hardware and interoperability software products.
- The increase in accretion and amortization of long term debt, and the decrease in interest expense is the result of the company redeeming the outstanding debentures during the first quarter of the year. As a result of the redemption the Company did not incur any interest expense in the three months ended February 28, 2007 and interest expense decreased. Also, as a result of the redemption, all deferred financing costs and accretion were expensed during the first quarter of this year, which resulted in the large increase in accretion expense as compared to the prior year.
- The changes in amortization, stock based compensation, foreign exchange loss, interest income, and income tax expense have all been explained in the preceding commentary.
- The impact of foreign exchange on revenue was minimal in the current period as compared to the same period in the prior year.



Second Quarter Fiscal 2007 – Cash Flows

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

Cash Provided by (used in):	Q2 F2007	Q2 F2006	Change
Operating Activities	(\$3,034,396)	(\$2,454,337)	(\$580,059)
Investing Activities	(\$184,847)	(\$430,667)	\$245,820
Financing Activities	\$0	(\$76,531)	\$76,531
Increase (Decrease) in Cash and Cash Equivalents	(\$3,219,243)	(\$2,961,535)	(\$257,708)

The cash used in operating activities is attributed to spending on Soleus marketing and research and development which amounted to approximately \$3.8 million in the second quarter. In addition, the accounts receivable balance was unusually high at the end of the first quarter due to the timing related to the signing of a large contract. This amount was collected in the second quarter.

Investing activities decreased as expansion of the Company's Vancouver and Bellevue facilities that occurred in 2006 did not reoccur in the current year.

The cash used by financing activities in the prior year relates to issuance costs for the debenture financing that closed in the first quarter of 2006.

Year-to-Date Fiscal 2007 – Cash Flows

Comparison of Year-to-Date Fiscal 2007 and Year-to-Date Fiscal 2006

Cash Provided by (used in):	YTD F2007	YTD F2006	Change
Operating Activities	(\$8,950,077)	(\$5,573,970)	(\$3,376,107)
Investing Activities	(\$263,158)	(\$535,117)	\$271,959
Financing Activities	(\$7,323,669)	\$6,958,345	(\$14,282,014)
Increase (Decrease) In Cash and Cash Equivalents	(\$16,536,904)	\$849,258	(\$17,386,162)

The Company ended the second quarter of fiscal 2007 with cash and cash equivalents totaling \$6.0 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 debenture and by the use of funds in operating activities primarily related to the development of the Company's Soleus product.

Cash used in operating activities increased by approximately \$3.4 million year to date 2007 as compared to year to date 2006. This change was due primarily to the increase in research and development and marketing expenditures of approximately \$3.0 million related to development of the Company's Soleus product. As well there was an increased level payments with respect to trade payables and accruals as compared to the prior year of approximately \$1.1 million related to payment of liabilities accrued at year end and paid in the current fiscal year.

Cash used in investing activities decreased by approximately \$272,000 year to date in 2007 compared to year to date in 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 debentures in the current period, and the proceeds from the issuance of the debentures in the comparative period.

RESULTS OF OPERATIONS

Revenues

Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

	Q2 F2007	Percentage of Total Revenue	Q2 F2006	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	\$305,671	6.1%	\$476,403	9.9%	(\$170,732)	(35.8%)
Software Revenue	\$427,833	8.5%	\$463,273	9.7%	(\$35,440)	(7.6%)
Services Revenue	\$4,302,927	85.4%	\$3,852,812	80.4%	\$450,115	11.7%
Total Revenue	\$5,036,431	100.0%	\$4,792,488	100.0%	\$243,943	5.1%

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 \$0.6 million of unbilled revenue included in the revenue for the first two quarters of fiscal 2007 and reflected in the February 28, 2007 accounts receivable balance. Unbilled receivable balances are related to long time customers with established business relationships.

Hardware revenue has declined because the hardware products are at a late stage in the product life cycle. As new technology continues to gain acceptance, the Company expects that hardware revenue will continue to decline as the Company is not investing in new hardware product research and development.

There were two significant customers that accounted for 49% of revenue (28%, and 21%, respectively) in the second quarter of fiscal 2007. These two significant customers accounted for 17% of revenue (2% and 15%, respectively) of revenue in the second quarter of fiscal 2006.

The change in foreign exchange rates during the relative periods had little impact on the revenue of the Company.

Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and First Quarter Fiscal 2007

	Q2 F2007	Percentage of Total Revenue	Q1 F2007	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	\$305,671	6.1%	\$352,698	7.0%	(\$47,027)	(13.3%)
Software Revenue	\$427,833	8.5%	\$439,466	8.8%	(\$11,633)	(2.6%)
Services Revenue	\$4,302,927	85.4%	\$4,228,923	84.2%	\$74,004	1.7%
Total Revenue	\$5,036,431	100.0%	\$5,021,087	100.0%	\$15,344	0.3%

Software revenue in the quarter was consistent with the prior quarter and service revenue in the second quarter increased marginally as the Company continues to execute well on its engineering services contracts. Hardware revenue decreased and is expected to continue to decline as the Company's hardware products near the end of their product lifecycle.



Year to Date Fiscal 2007

Comparison of Year-to-Date Fiscal 2007 and Year-to-Date Fiscal 2006

	YTD F2007	Percentage of Total Revenue	YTD F2006	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	\$658,369	6.5%	\$1,140,541	12.2%	(\$482,172)	(42.3%)
Software Revenue	\$867,299	8.6%	\$923,297	9.9%	(\$55,998)	(6.1%)
Services Revenue	\$8,531,850	84.9%	\$7,281,338	77.9%	\$1,250,512	17.2%
Total Revenue	\$10,057,518	100.0%	\$9,345,176	100.0%	\$712,342	7.6%

Hardware revenues for year to date fiscal 2007 have declined as compared to the same period of fiscal 2006. This decline is due to the Company's hardware products nearing the end of their product lifecycle. The Company expects that hardware revenues will continue to decline as no new investment in research for these products is planned. 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 were two significant customers that accounted for 48% of revenue (27%, and 21%, respectively) year-to-date in fiscal 2007. These two significant customers accounted for 15% of revenue (1% and 14%, respectively) in the same period in fiscal 2006.

Gross Margins

Gross margins on software licensing revenue of approximately 75% to 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.

Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

	Q2 F2007	Q2 F2006	Change	Percentage
Gross Margin	\$2,482,273	\$1,610,855	\$871,418	54.1%
Gross Margin %	49%	34%		

The increase in gross margin percentage in the second quarter of 2007, as compared to the second quarter of 2006, was a result of successfully securing and executing projects focused on mobility engineering services opportunities. Gross margins were negatively impacted in the second quarter of fiscal 2006 due to technical challenges and associated with new semiconductor technology and aggressive pricing on one particular project. These challenges did not reoccur in the current quarter. The ratio of services revenue to software revenue remained relatively consistent in the comparative quarters.



Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and First Quarter Fiscal 2007

	Q2 F2007	Q1 F2007	Change	Percentage
Gross Margin	\$2,482,273	\$2,316,214	\$166,059	7.2%
Gross Margin %	49%	46%		

Gross margin increased compared to the prior quarter primarily as the result of the Company successfully executing on fixed price engineering services contracts focused on mobility opportunities.

Year to Date Fiscal 2007

Comparison of Year-to-Date Fiscal 2007 and Year-to-Date Fiscal 2006

	YTD F2007	YTD F2006	Change	Percentage
Gross Margin	\$4,798,487	\$3,494,857	\$1,303,630	37.3%
Gross Margin %	48%	37%		

The increase in gross margin percentage year to date fiscal 2007, as compared to year to date fiscal 2006, was a result of successfully securing and executing projects focused on mobility engineering services opportunities. Gross margins were negatively impacted in the prior year due to technical challenges and associated with new semiconductor technology and aggressive pricing on one particular contract. These challenges did not reoccur in the current year. The ratio of services revenue to software revenue remained relatively consistent in the comparative quarters.

Administration

Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

	Q2 F2007	Q2 F2006	Change	Percentage
Administration Expense	\$1,411,021	\$1,360,608	(\$50,413)	(3.7%)

The increase in administration expense is largely due to the costs of a consulting agreement entered into with a retiring executive. The Company has accrued approximately \$250,000 in relation to this agreement. Additionally, the Company has incurred additional travel expenses of approximately \$40,000 in order to support the increase in geographic scope of its business. These increases in cost have been offset by a reduction in bad debts expense of approximately \$135,000 as compared to the same quarter of fiscal 2006 relating to the reduction in accounts provided against collection of a previously allowed for amount.



Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and First Quarter Fiscal 2007

	Q2 F2007	Q1 F2007	Change	Percentage
Administration	\$1,411,021	\$1,123,937	(\$287,084)	(25.5%)

Administrative expense was impacted by the previously discussed consulting arrangement and an increase in staffing related expenses, partially offset by a reduction in the bad debts expense of approximately \$159,000 as compared to the prior quarter relating to collection of a previously allowed for amount that was collected in the current quarter.

Year to Date Fiscal 2007

Comparison of Year-to-Date Fiscal 2007 and Year-to-Date Fiscal 2006

	YTD F2007	YTD F2006	Change	Percentage
Administration	\$2,534,958	\$2,749,355	\$214,397	7.8%

The decrease in administration expense is largely due to the previously identified consulting arrangement partially offset by a decrease of approximately \$71,000 in bad debts expense relating to collection of a previously allowed for amount, and a decrease in directors fees and expenses as compared to the prior year.

Marketing and Sales Expenses

Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

	Q2 F2007	Q2 F2006	Change	Percentage
Marketing and Sales	\$1,696,643	\$883,517	(\$813,126)	(92.0%)

Marketing and sales costs increased significantly in the second quarter of 2007 compared to the second quarter of 2006 due to more activity in support of the release of the Company's Soleus product. Salaries and related costs increased \$418,000, tradeshow related costs increased by approximately \$142,000 and travel expenses increased \$113,000. These increases were the result of increasing the headcounts in sales and marketing from 18 as at February 28, 2006 to 30 as at February 28, 2007 and of more activity in the marketing and sales group occurring in the second quarter of 2007 to support the Soleus go-to-market strategy.

As of February 28, 2007 the Company is in the process of opening a sales office in Taipei, Taiwan and will be pursuing Asian based engineering services and Soleus contracts from this location.



Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and First Quarter Fiscal 2007

	Q2 F2007	Q1 F2007	Change	Percentage
Marketing and Sales	\$1,696,643	\$1,332,658	(\$363,985)	(27.3%)

Marketing and sales costs increased in the second quarter as compared to the first quarter of fiscal 2007 due to increased tradeshow costs of approximately \$160,000 for attendance at the 3GSM World Congress tradeshow during the quarter, increased salary and related costs of approximately \$137,000 relating to headcount increases from 24 as at November 30, 2006 to 30 as at February 28, 2007 to support release of the Company's Soleus product and an increase of approximately \$56,000 relating to increased travel expenses for travel to the 3GSM tradeshow and to support the release of the Soleus product.

As of February 28, 2007 the Company is in the process of opening a sales office in Taipei, Taiwan and will be pursuing Asian based engineering services and Soleus contracts from this location.

Year to Date Fiscal 2007

Comparison of Year-to-Date Fiscal 2007 and Year-to-Date Fiscal 2006

	YTD F2007	YTD F2006	Change	Percentage
Marketing and Sales	\$3,029,301	\$1,690,916	(\$1,338,385)	(79.2%)

Marketing and sales costs increased year to date in fiscal 2007 as compared to year to date in fiscal 2006 due to increased tradeshow costs of approximately \$185,000 for attendance at the 3GSM tradeshow during the year, increased salary and related costs of approximately \$684,000 relating to a headcount increase in sales and marketing from 18 as at February 28, 2006 to 30 as at February 28, 2007 to support release of the Company's Soleus product and an increase of approximately \$222,000 relating to increased travel expenses for travel to the 3GSM tradeshow and to support the release of the Soleus product.

As of February 28, 2007 the Company is in the process of opening a sales office in Taipei, Taiwan and will be pursuing Asian based engineering services and Soleus contracts from this location.



Research and Development

Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

	Q2 F2007	Q2 F2006	Change	Percentage
Research And Development - Soleus	\$3,300,680	\$2,508,878	(\$791,802)	(31.6%)
Other Research & Development	\$1,022	\$144,509	\$143,487	99.3%
Total Research and Development	\$3,301,702	\$2,653,387	(\$648,315)	(24.4%)

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 45 at February 28, 2006 to 78 at February 28, 2007 resulting in an increase in compensation costs of \$1.1 million as well as increases in rent and office costs totaling \$229,000. These increases were offset by a reduction of approximately \$309,000 relating to tradeshows in the current year as the attendance at the 3GSM tradeshow was classified as a marketing and sales expense in the current year. In the prior year it was classified as research and development as the product had not reached a commercial state by the second quarter of fiscal 2006. Additionally, there has been a decline of approximately \$227,000 relating to consulting in the current year as the Company did not rely on external consultants as much in the second quarter of the current year as it did in the second quarter of the prior year. Expenditures in other research and development have declined due to a reduction in research and development effort relating to the Company's hardware and interoperability software products.

Second Quarter Fiscal 2007

Comparison of Second Quarter Fiscal 2007 and First Quarter Fiscal 2007

	Q2 F2007	Q1 F2007	Change	Percentage
Research And Development - Soleus	\$3,300,680	\$2,950,281	(\$350,399)	(11.9%)
Other Research and Development	\$1,022	\$25,989	\$24,967	96.1%
Total Research and Development	\$3,301,702	\$2,976,270	(\$325,432)	(10.9%)

Staff and related costs working in support of the Soleus product increased approximately \$478,000 in the second quarter of 2007 as compared to the first quarter of 2007. This was partially offset by a decrease of \$149,000 in consulting fees during the second quarter as the Company relied less on external consultants in the second quarter as opposed to the first quarter of 2007. Expenditures in other research and development have declined due a reduction of research and development effort related to the Company's hardware and interoperability products.



Year to Date Fiscal 2007

Comparison of Year-to-Date Fiscal 2007 and Year-to-Date Fiscal 2006

	YTD F2007	YTD F2006	Change	Percentage
Research And Development - Soleus	\$6,250,961	\$4,048,051	(\$2,202,910)	(54.4%)
Other Research and Development	\$27,011	\$253,717	\$226,706	89.4%
Total Research and Development	\$6,277,972	\$4,301,768	(\$1,976,204)	(45.9%)

The increase in staff and temporary employees in research and development primarily working on the development of the Soleus product drove approximately \$2.0 million of the increase in research and development. Additionally, office costs increased by approximately \$291,000 to support the increases in headcount. These increases were partially offset by decreases of approximately \$309,000 relating to tradeshow costs in the prior year discussed above, and a decrease of approximately \$157,000 relating to consulting services provided in the current year as compared to the prior year. 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.



Summary of Quarterly Results

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

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 February 28, 2007, the Company had cash and cash equivalents totaling approximately \$6.0 million, with working capital¹ of \$6.8 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 February 28, 2007, 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 \$81,000 on earnings before income tax for the quarter.

Second Quarter Fiscal 2007 – Cash Flows

Comparison of Second Quarter Fiscal 2007 and Second Quarter Fiscal 2006

Cash Provided by (used in):	Q2 F2007	Q2 F2006	Change
Operating Activities	(\$3,034,396)	(\$2,454,337)	(\$580,059)
Investing Activities	(\$184,847)	(\$430,667)	\$245,820
Financing Activities	\$0	(\$76,531)	\$76,531
Increase (Decrease) in Cash and Cash Equivalents	(\$3,219,243)	(\$2,961,535)	(\$257,708)

The cash used in operating activities is attributed to spending on Soleus marketing and research and development by the Soleus business unit which incurred expenses of approximately \$3.8 million in the second quarter. In addition, the accounts receivable balance was unusually high at the end of the first quarter due to the timing related to the signing of a large contract. This amount was collected in the second quarter.

⁽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.



Investing activities decreased as a result of the expansion of the Company's Vancouver and Bellevue facilities in the prior year. This rate of investment has not occurred in the current year.

The cash used by financing activities in the prior quarter relates to late expenses incurred in connection with the debenture financing. No such costs were incurred in the current year.

Second Quarter Fiscal 2007 – Cash Flows

Year-to-Date Fiscal 2007 – Cash Flows

Comparison of Year-to-Date Fiscal 2007 and Year-to-Date Fiscal 2006

Cash Provided by (used in):	YTD F2007	YTD F2006	Change
Operating Activities	(\$8,950,077)	(\$5,573,970)	(\$3,376,107)
Investing Activities	(\$263,158)	(\$535,117)	\$271,959
Financing Activities	(\$7,323,669)	\$6,958,345	(\$14,282,014)
Increase (Decrease) In Cash and Cash Equivalents	(\$16,536,904)	\$849,258	(\$17,386,162)

The Company ended the second quarter of fiscal 2007 with cash and cash equivalents totaling \$6.0 million, as compared to \$22.5 million at August 31, 2006.

The decrease in cash and cash equivalents is due to the advance repayment of the \$8.0 million debentures during the current year, an increase in operating activities in support of the marketing and development of the Company's Soleus product and the decrease in accounts payable relating to payments made in the current period for items included as liabilities as at August 31, 2006.

Cash used in operating activities increased by approximately \$3.4 million year to date fiscal 2007 as compared to year to date fiscal 2006. This change was due primarily to the approximately \$3.0 million increase in marketing and research and development expenditure in support of the Company's Soleus product as well as a decrease in trade payables and accrued liabilities of approximately \$1.1 million as compared to the prior year related to payout of year end accruals during the current year.

Cash used in investing activities decreased by approximately \$272,000 in year to date fiscal 2007 compared to year to date fiscal 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 debentures in the current period and the issuance of the debentures net of associated fees in the comparative period.

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, Taiwan and the United States. The Company closed its Singapore office during the quarter. Minimum lease payments are as follows:



Contractual Obligations \$Millions	Total	F2007	F2008	F2009	F2010	F2011	F2012
Operating Lease Obligations	\$5.8	\$0.8	\$1.3	\$1.5	\$1.2	\$0.6	\$0.4

As set out in the consolidated financial statements as at, and for the three and six month periods ended February 28, 2007 and 2006, 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 \$492,909 in royalties to TPC.

As at February 28, 2007, the Company had 83,043,369 common shares outstanding, 6,924,800 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, 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 and six months ended February 28, 2007, 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 February 28, 2007 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 February 28, 2007, the Company had an accumulated deficit of approximately \$60.4 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.

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.

Dependence on a Small Number of Customers

The Corporation's revenue is dependent, in large part, on significant contracts from a limited number of customers. During the three months ended February 28, 2007, approximately 49% of the Corporation's consolidated revenue was attributable to its two largest customers. During the three months ended February 28, 2006 approximately 28% of the Corporation's consolidated revenue was attributable to its two largest customers. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Corporation. Moreover, the success of the Corporation will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

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.

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 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 Corporation'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.

Non-recurring Costs

From time to time the Corporation may incur significant non-recurring charges as a result of business segment shut-down or corporate restructuring. These charges could have an adverse effect on the business, financial condition, operating results or cash flow of the Corporation.

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 February 28, 2007.

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 and six months
ended February 28, 2007 and February 28, 2006

Intrinsyc Software International, Inc.
CONSOLIDATED BALANCE SHEETS
(See Note 1 – Basis of Presentation)
(Unaudited)

	February 28	August 31
	2007	2006
	\$	\$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	5,950,172	22,487,076
Accounts receivable <i>[note 4]</i>	3,982,543	3,789,743
Inventory	129,310	110,996
Prepaid expenses - current	372,487	385,816
Total current assets	10,434,512	26,773,631
Prepaid expenses	187,220	61,769
Equipment <i>[note 13]</i>	1,390,317	1,360,832
Goodwill	14,189,478	14,189,478
Intangible assets	398,455	556,120
Deferred financing costs <i>[note 7]</i>	--	516,599
Total assets	26,599,982	43,458,429
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	2,828,197	4,010,542
Taxes payable	295,174	218,912
Deferred revenue	558,656	542,515
Total current liabilities	3,682,027	4,771,969
Debentures <i>[note 7]</i>	--	7,617,946
Future income taxes	175,052	229,655
Total liabilities	3,857,079	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>	3,361,526	2,951,875
Cumulative translation adjustment	(27,792)	(27,792)
Deficit	(60,444,567)	(51,938,960)
Total shareholders' equity	22,742,903	30,838,859
Total liabilities and shareholders' equity	26,599,982	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 February 28		Six months ended February 28	
	2007 \$	2006 \$	2007 \$	2006 \$
Revenues <i>[note 13]</i>	5,036,431	4,792,488	10,057,518	9,345,176
Cost of sales	2,554,158	3,181,633	5,259,031	5,850,319
	2,482,273	1,610,855	4,798,487	3,494,857
Expenses				
Administration	1,411,021	1,360,608	2,534,958	2,749,355
Marketing and sales	1,696,643	883,517	3,029,301	1,690,916
Research and development	3,301,702	2,653,387	6,277,972	4,301,768
Amortization <i>[note 5]</i>	212,579	430,722	391,339	653,195
Stock-based compensation <i>[notes 11 and 12]</i>	210,038	301,684	409,651	506,144
Technology Partnerships Canada Funding Investment <i>[note 8]</i>	1,725	--	1,725	1,173
	6,833,708	5,629,918	12,644,946	9,902,551
Loss before other expense (income) and income taxes	4,351,435	4,019,063	7,846,459	6,407,694
Other expense (income)				
Foreign exchange loss (gain)	(174,515)	89,136	(424,300)	196,559
Interest income	(57,069)	(67,757)	(242,376)	(117,675)
Accretion and amortization – long term debt <i>[note 7]</i>	--	207,609	927,778	333,983
Interest expense – long term debt <i>[note 7]</i>	--	246,575	213,699	405,479
	(231,584)	475,563	474,801	818,346
Loss before income taxes	4,119,851	4,494,626	8,321,260	7,226,040
Income tax expense (recovery)				
Current	156,040	45,119	242,489	67,107
Future	(29,150)	(10,668)	(58,142)	(34,320)
	126,890	34,451	184,347	32,787
Loss for the period	4,246,741	4,529,077	8,505,607	7,258,827
Deficit, beginning of period	56,197,826	38,275,376	51,938,960	35,545,626
Deficit, end of period	60,444,567	42,804,453	60,444,567	42,804,453
Loss per share (basic and diluted)	0.05	0.08	0.10	0.13
Weighted average number of shares outstanding	83,043,369	56,237,468	83,043,369	56,235,893

See accompanying notes to unaudited interim consolidated financial statements

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended February 28		Six months ended February 28	
	2007	2006	2007	2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(4,246,741)	(4,529,077)	(8,505,607)	(7,258,827)
Items not involving cash				
Amortization	212,579	430,722	391,339	653,195
Future income taxes	(27,710)	31,355	(54,603)	7,703
Stock-based compensation	210,038	301,684	409,651	506,144
Accretion and amortization – long term debt	--	207,609	222,322	333,983
Changes in non-cash operating working capital				
Accounts receivable	996,694	656,770	(192,800)	175,801
Inventory	20,774	(9,084)	(18,314)	(6,585)
Prepaid expenses	23,753	(7,604)	(112,122)	(36,453)
Accounts payable and accrued liabilities	(266,172)	880,455	(1,182,346)	567,423
Taxes payable	132,985	(137,366)	76,262	(148,429)
Deferred revenue	(90,596)	(279,801)	16,141	(367,925)
Cash used in operating activities	(3,034,396)	(2,454,337)	(8,950,077)	(5,573,970)
INVESTING ACTIVITIES				
Purchase of equipment	(184,847)	(430,667)	(263,158)	(535,117)
Cash used in investing activities	(184,847)	(430,667)	(263,158)	(535,117)
FINANCING ACTIVITIES				
Issuance of common shares	--	--	--	1,950
Debentures [note 7]	--	--	(8,000,000)	8,000,000
Debentures issuance costs [note 7]	--	(76,531)	(29,125)	(1,043,605)
Accretion and amortization realized on early redemption of debentures [note 7]	--	--	705,456	--
Cash provided by (used in) financing activities	--	(76,531)	(7,323,669)	6,958,345
Increase (decrease) in cash and cash equivalents	(3,219,243)	(2,961,535)	(16,536,904)	849,258
Cash and cash equivalents, beginning of period	9,169,415	11,129,003	22,487,076	7,318,210
Cash and cash equivalents, end of period	5,950,172	8,167,468	5,950,172	8,167,468
Supplementary information				
Interest paid	198	251,279	213,897	412,167
Income taxes paid	--	29,587	211,076	45,823

See accompanying notes to unaudited interim consolidated financial statements

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
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 unaudited interim 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 \$60,444,567. 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 unaudited interim consolidated 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 consolidated financial position, results of operations and cash flows and for all periods presented, have been included. Interim results for the three and six month periods ended February 28, 2007 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.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
Unaudited

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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 February 28, 2007 [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 February 28, 2007 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 on the consolidated balance sheet. There was no borrowing outstanding against the operating line of credit as at February 28, 2007 [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 \$14,600 (\$12,500 USD). There was no borrowing outstanding against the overdraft as at February 28, 2007 [August 31, 2006 – Nil].

4. ACCOUNTS RECEIVABLE

	February 28, 2007	August 31, 2006
	\$	\$
Trade and miscellaneous receivables	3,427,808	3,129,351
Unbilled revenue	554,735	660,392
	3,982,543	3,789,743

5. AMORTIZATION

	Three Months Ended February 28		Six Months Ended February 28	
	2007	2006	2007	2006
	\$	\$	\$	\$
Equipment	133,747	94,041	233,674	178,943
Intangible assets	78,832	336,681	157,665	474,252
	212,579	430,722	391,339	653,195

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
Unaudited

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.

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 had 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 six months ended February 28, 2007, the Company recorded \$382,054 [February 28, 2006 - \$135,290] as accretion expenses. Of this

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
Unaudited

7. DEBENTURES (cont'd.)

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 six months ended February 28, 2007, the Company recorded \$545,724 [February 28, 2006 - \$198,693] 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.

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

	Three Months Ended February 28		Six Months Ended February 28	
	2007	2006	2007	2006
	\$	\$	\$	\$
Non-cash accretion of debentures from carrying value to face value	--	82,564	73,982	135,290
Non-cash accretion realized due to early payment of debentures	--	--	308,072	--
Non-cash amortization of debt financing charges	--	125,045	119,215	198,693
Non-cash amortization realized due to early payment of debentures	--	--	397,384	--
Additional legal, professional and transaction fees	--	--	29,125	--
	--	207,609	927,778	333,983
Cash interest expense	--	246,575	213,699	405,479
	--	454,184	1,141,477	739,462

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 \$492,908 to TPC in royalties.

9. COMMITMENTS AND CONTINGENCIES

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	763,000
2008	1,350,000
2009	1,476,000
2010	1,237,000
2011	570,000
2012	433,000
	<hr/> 5,829,000 <hr/>

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
Unaudited

10. EMPLOYEE PENSION CONTRIBUTIONS

	Three Months Ended February 28		Six Months Ended February 28	
	2007 \$	2006 \$	2007 \$	2006 \$
Benefit costs	151,340	154,349	312,262	277,877

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.

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, 2006 and February 28, 2007	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 13,395,774 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 9,286,750 options available for issuance, of which 6,924,800 are outstanding as at February 28, 2007.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
Unaudited

11. SHARE CAPITAL (cont'd.)

A summary of the Company's share option activity for the six months ended February 28, 2007 is as follows:

	<u>Outstanding options</u>	
	Number of common shares	Weighted average exercise price \$
Outstanding, August 31, 2006	6,374,413	0.97
Options granted	1,288,325	0.48
Options cancelled	(737,938)	1.37
Outstanding, February 28, 2007	6,924,800	0.82

The following table summarizes the share options outstanding at February 28, 2007:

<u>Options outstanding</u>				<u>Options exercisable</u>	
Range of exercise price \$	Number of common shares	Weighted average remaining contractual life	Weighted average exercise price \$	Number Exercisable	Weighted average exercise price \$
0.39 – 0.74	2,597,460	3.62	0.51	1,051,317	0.55
0.75 – 1.10	2,949,940	3.44	0.89	1,350,449	0.94
1.11 – 3.21	1,377,400	2.50	1.25	934,696	1.25
	6,924,800	3.32	0.82	3,336,462	0.90

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>February 28</u>		<u>Six Months Ended</u> <u>February 28</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Expected life in years	4.00	4.00	4.00	4.00
Risk-free interest rate	4.10%	3.93%	4.11%	3.90%
Volatility	81.5%	173.5%	83.1%	172.7%
Dividend yield	0%	0%	0%	0%

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
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, 2006 and February 28, 2007	19,680,845	0.95	5,229,997

12. CONTRIBUTED SURPLUS

	Three Months Ended February 28		Six Months Ended February 28	
	2007 \$	2006 \$	2007 \$	2006 \$
Contributed surplus – opening balance	3,151,488	2,101,220	2,951,875	1,896,760
Warrants expired	--	140,000	--	140,000
Stock-based compensation expense	210,038	301,684	409,651	506,144
Contributed surplus – closing balance	3,361,526	2,542,904	3,361,526	2,542,904

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
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:

	February 28, 2007 \$	August 31, 2006 \$
United States	354,741	280,828
Canada	931,036	963,623
Europe	104,540	116,381
	1,390,317	1,360,832

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

	Three Months Ended February 28		Six Months Ended February 28	
	2007 \$	2006 \$	2007 \$	2006 \$
United States	3,183,564	2,160,982	6,134,659	4,939,347
Canada	326,416	47,923	691,665	483,019
Europe	1,477,961	2,369,918	3,159,065	3,484,758
Other	48,490	213,665	72,129	438,052
	5,036,431	4,792,488	10,057,518	9,345,176

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended February 28, 2007
Unaudited

13. SEGMENTED INFORMATION (cont'd.)

Significant customers

	% of Sales Three Months Ended February 28		% of Sales Six Months Ended February 28		% of Accounts Receivable February 28
	2007	2006	2007	2006	2007
Customer 1	28%	2%	27%	1%	30%
Customer 2	21%	15%	21%	14%	24%
Total	49%	17%	48%	15%	54%

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.