



Intrinsic Software International, Inc.

**Interim Financial Report
2007 Fiscal Third Quarter**





Intrinsic Software International, Inc.

Management Discussion & Analysis

Third Quarter Fiscal 2007



Management's Discussion & Analysis

July 11, 2007

This management discussion and analysis covers our unaudited interim consolidated financial statements as at, and for the three and nine month periods ended May 31, 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

Third Quarter Fiscal 2007 – Statement of Operations

Comparison of Third Quarter Fiscal 2007 and Third Quarter Fiscal 2006

	Q3 F2007	Q3 F2006	Change	Percentage Change
Revenue	\$5,111,900	\$4,388,609	\$723,291	16.5%
Gross Margin	\$2,647,662	\$1,545,954	\$1,101,708	71.3%
Gross Margin %	52%	35%		
Administration	\$1,415,617	\$1,211,953	(\$203,664)	(16.8%)
Marketing and Sales	\$1,734,161	\$899,821	(\$834,340)	(92.7%)
Research And Development - Soleus Development	\$2,951,124	\$2,929,574	(\$21,550)	(0.7%)
Other Research & Development	\$1,823	\$61,925	\$60,102	97.1%
Amortization	\$204,247	\$215,772	\$11,525	5.3%
Stock based Compensation	\$95,899	\$250,917	\$155,018	61.8%
Technology Partnerships Canada Funding Investment	\$153,358	\$122,965	(\$30,393)	(24.7%)
Total Operating Expenses	\$6,556,229	\$5,692,927	(\$863,302)	(15.2%)
Foreign Exchange Loss	\$488,818	\$254,189	(\$234,629)	(92.3%)
Interest Income	(\$93,105)	(\$199,797)	(\$106,692)	(53.4%)
Accretion and Amortization - Long Term Debt	\$0	\$204,568	\$204,568	100.0%
Interest Expense-Long Term Debt	\$0	\$252,055	\$252,055	100.0%
Income Tax Expense	\$78,878	\$46,904	(\$31,974)	(68.2%)
Loss	\$4,383,158	\$4,704,892	\$321,734	6.8%
Loss Per Share	\$0.05	\$0.06	\$0.01	16.7%

The improvement in revenues in the third quarter of fiscal 2007, compared to the third quarter of fiscal 2006 continues to be based on the strength of the mobile system integration services market particularly in North America and our focus on the Microsoft's Windows Mobile platform. There has also been growth in an ongoing engagement with a leading wireless software provider. Additionally, in the third quarter of 2006 the Company had one project suspended by a customer, and as a result the Company was unable to recognize a significant amount of revenue on this project in the third quarter of 2006. There were no such suspensions during the third quarter of 2007.

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

- The increase in gross margin percentage, which resulted from improved volume and execution on our engineering services contracts. In the third quarter of 2006, a customer suspended a contract which resulted in the Company not being able to recognize a significant amount of revenue in the third quarter of 2006. No such suspension occurred in the current quarter and this contributed to the improved margins.
- The increase in administration expense is largely due to the costs required to support operating in an increased number of locations and geographies. During the current year the Company has opened new office locations in Cupertino, California and in Taipei, Taiwan.
- 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 travel costs associated with increased staffing.

- Research and development expenditures were comparable in the third quarter of 2007 with expenditures in the third quarter of 2006. This was a result of staffing being relatively consistent with the comparable period.
- Expenditures on other research and development activities have declined due to a reduction in research and development efforts in the Company's engineering services and interoperability software business units.
- Amortization expense relates to tangible and intangible assets. Amortization expense was consistent with the expense recorded during the third quarter of 2006 as the asset levels employed in the Company's business remained relatively constant in the comparable periods.
- The decrease in stock based compensation expense is due to the change in status of two of the Company's former officers. As part of their agreements with the Company the two former officers' options continue to vest. As a result, the Company has changed the method of accounting for these options, and it has resulted in a decrease in the related expense.
- The impact of the strengthening of the Canadian dollar in relation to the US dollar during the three months ended May 31, 2007 caused the foreign exchange loss of approximately \$489,000 during the three months ended May 31, 2007. The loss was a result of the Company's net working capital position that is denominated in US dollars. 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 \$93,000 was earned during the three months ended May 31, 2007 as compared to interest income of approximately \$200,000 for the three months ended May 31, 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 aside from the previously mentioned translation foreign exchange loss incurred during the current quarter.
- The increase in the income tax expense relates to the Company's international operating structure.



Third Quarter Fiscal 2007 – Statement of Operations

Comparison of Third Quarter Fiscal 2007 and Second Quarter Fiscal 2007

	Q3 F2007	Q2 F2007	Change	Percentage Change
Revenue	\$5,111,900	\$5,036,431	\$75,469	1.5%
Gross Margin	\$2,647,662	\$2,482,273	\$165,389	6.7%
Gross Margin %	52%	49%		
Administration	\$1,415,617	\$1,411,021	(\$4,596)	(0.3%)
Marketing and Sales	\$1,734,161	\$1,696,643	(\$37,518)	(2.2%)
Research And Development - Soleus Development	\$2,951,124	\$3,300,680	\$349,556	10.6%
Other Research & Development	\$1,823	\$1,022	(\$801)	(78.4%)
Amortization	\$204,247	\$212,579	\$8,332	3.9%
Stock based Compensation	\$95,899	\$210,038	\$114,139	54.3%
Technology Partnerships Canada Funding Investment	\$153,358	\$1,725	(\$151,633)	(8,790.3%)
Total Operating Expenses	\$6,556,229	\$6,833,708	\$277,479	4.1%
Foreign Exchange Loss (Gain)	\$488,818	(\$174,515)	(\$663,333)	(380.1%)
Interest Income	(\$93,105)	(\$57,069)	\$36,036	63.1%
Accretion and Amortization - Long Term Debt	\$0	\$0	\$0	0.0%
Interest Expense-Long Term Debt	\$0	\$0	\$0	0.0%
Income Tax Expense	\$78,878	\$126,890	\$48,012	37.8%
Loss	\$4,383,158	\$4,246,741	(\$136,417)	(3.2%)
Loss Per Share	\$0.05	\$0.05	\$0.00	0.0%

The revenue for the third quarter was marginally higher than the second quarter. The Company continued to execute well on its engineering services contracts in the third quarter of the year, and as a result, revenue has remained consistent with the second quarter. While the company began to develop a base of operations in Taiwan to support a wireless services business in Asia, and has secured a first customer engagement, no revenue was realized from that business in the third quarter. Further, the decline in revenues in the UK operation noted earlier in the year, has continued. This is due to the strategic focus on wireless and the transition away from the general embedded services business.

The increase in the net loss for the third quarter of fiscal 2007, compared to the second 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 in the third quarter were consistent compared to the prior quarter. There was a decrease in expenses in the current quarter as a consulting agreement with a former executive that was entered into in the prior quarter did not reoccur in the current period, however there were additional professional fees associated with setting up a revolving line of credit and additional director fees incurred in the current quarter that offset the decrease in cost relative to the consulting agreement fee not reoccurring.



- Sales and marketing costs in the current quarter were consistent with those of the prior quarter as the Company continues to support the Soleus product go-to-market plan. Soleus is the Company's mobile handset platform software product based on Windows CE. The Company spent a significant amount during the second quarter attending an industry tradeshow (3GSM World Congress) that did not reoccur in the current quarter, however there were increased costs relating to recruitment of additional staff during the third quarter that offset this decrease.
- Research and development expenditures decreased during the third quarter as compared to the second quarter as the number of staff working on the Soleus development project decreased now that the product has been released commercially. The company expects it will continue to spend a significant amount on further development of the Soleus product in the future.
- Interest income of approximately \$93,000 was earned during the three months ended May 31, 2007 as compared to interest income of approximately \$57,000 for the three months ended February 28, 2007. Cash balances during the quarter ended May 31, 2007 increased substantially due to the Company's Public Offering for gross proceeds of \$20 million that closed on May 10, 2007.
- Amortization expense was consistent with the prior quarter in the three months ended May 31, 2007 as a result of the relatively stable level of equipment employed in the Company's operations.
- Stock based compensation decreased during the three months ended May 31, 2007 as compared to the three months ended February 28, 2007 due to the change in status of two of the Company's former officers. As part of their agreements with the Company the two former officers' options continue to vest. As a result, the Company has changed the method of accounting for these options, which has resulted in a decrease in the related expense.
- 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 Year-to-Date Fiscal 2006

	YTD F2007	YTD F2006	Change	Percentage Change
Revenue	\$15,169,418	\$13,733,785	\$1,435,633	10.5%
Gross Margin	\$7,446,149	\$5,040,811	\$2,405,338	47.7%
Gross Margin %	49%	37%		
Administration	\$3,950,575	\$3,961,308	\$10,733	0.3%
Marketing and Sales	\$4,763,462	\$2,590,737	(\$2,172,725)	(83.9%)
Research And Development - Soleus Development	\$9,201,914	\$6,977,623	(\$2,224,291)	(31.9%)
Other Research & Development	\$29,006	\$315,644	\$286,638	90.8%
Amortization	\$595,586	\$868,967	\$273,381	31.5%
Stock based Compensation	\$505,550	\$757,061	\$251,511	33.2%
Technology Partnerships Canada Funding Investment	\$155,083	\$124,138	(\$30,945)	(24.9%)
Total Operating Expenses	\$19,201,176	\$15,595,478	(\$3,605,698)	(23.1%)
Foreign Exchange Loss	\$64,517	\$450,748	\$386,231	85.7%
Interest Income	(\$335,481)	(\$317,472)	\$18,009	5.7%
Accretion and Amortization - Long Term Debt	\$927,778	\$538,551	(\$389,227)	(72.3%)
Interest Expense-Long Term Debt	\$213,699	\$657,534	\$443,835	67.5%
Income Tax Expense	\$263,225	\$79,691	(\$183,534)	(230.3%)
Loss	\$12,888,765	\$11,963,719	(\$925,046)	(7.7%)
Loss Per Share	\$0.15	\$0.19	\$0.04	21.1%

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.
- Administration expense was consistent with the prior year. In the current period the Company incurred additional expenses to support the increase in the number of offices the Company operates. This increase was offset by a reduction in costs that were incurred in the prior period to support headcount increases in the engineering services and Soleus business units.
- 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, and travel associated with increased staffing 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 to which it was related, was in a pre-commercialization phase.
- The increase in staff 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 67 as at May 31, 2006 to 79 at May 31, 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 related attendance at an industry tradeshow (3GSM World Congress) that were made in support of Soleus in the prior year. The current year's expense for this tradeshow is included in marketing and sales as the Soleus product has now been released commercially.

- Reduced costs in other research and development activities 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 May 31, 2007. 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.

RESULTS OF OPERATIONS

Revenues

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Third Quarter Fiscal 2006

	Q3 F2007	Percentage of Total Revenue	Q3 F2006	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	\$135,307	2.6%	\$357,139	8.1%	(\$221,832)	(62.1%)
Software Revenue	\$499,424	9.8%	\$438,761	10.0%	\$60,663	13.8%
Services Revenue	\$4,477,169	87.6%	\$3,592,709	81.9%	\$884,460	24.6%
Total Revenue	\$5,111,900	100.0%	\$4,388,609	100.0%	\$723,291	16.5%

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 \$0.3 million of unbilled revenue included in the revenue for the first three quarters of fiscal 2007 and reflected in the May 31, 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.



Software revenues were consistent with the comparable quarter of the prior year. Included in the current periods software revenue was approximately \$23,000 of license revenue derived from the Company's Soleus product. These are the initial revenues realized by the Company for the Soleus product.

There were two significant customers that accounted for 53% of revenue (28%, and 25%, respectively) in the third quarter of fiscal 2007. These two significant customers accounted for 24% of revenue (4% and 20%, respectively) in the third quarter of fiscal 2006.

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

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and the Second Quarter Fiscal 2007

	Q3 F2007	Percentage of Total Revenue	Q2 F2007	Percentage of Total Revenue	Change	Percentage
Hardware Revenue	\$135,307	2.6%	\$305,671	6.1%	(\$170,364)	(55.7%)
Software Revenue	\$499,424	9.8%	\$427,833	8.5%	\$71,591	16.7%
Services Revenue	\$4,477,169	87.6%	\$4,302,927	85.4%	\$174,242	4.0%
Total Revenue	\$5,111,900	100.0%	\$5,036,431	100.0%	\$75,469	1.5%

Software revenue in the quarter was consistent with the prior quarter and service revenue in the third quarter increased marginally as the Company continues to execute 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 life-cycle.

Included in the current periods software revenue was approximately \$23,000 of license revenue derived from the Company's Soleus product. These are the initial revenues realized by the Company for the Soleus product.

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	\$793,676	5.2%	\$1,497,679	10.9%	(\$704,003)	(47.0%)
Software Revenue	\$1,385,110	9.1%	\$1,355,269	9.9%	\$29,841	2.2%
Services Revenue	\$12,990,632	85.7%	\$10,880,837	79.2%	\$2,109,795	19.4%
Total Revenue	\$15,169,418	100.0%	\$13,733,785	100.0%	\$1,435,633	10.5%

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 life-cycle. 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.



Software revenues were consistent with the comparable period of the prior year. Included in the current periods software revenue was approximately \$23,000 of license revenue derived from the Company's Soleus product. These were the initial revenues realized by the Company for the Soleus product.

There were two significant customers that accounted for 49% of revenue (27%, and 22%, respectively) year-to-date in fiscal 2007. These two significant customers accounted for 18% of revenue (2% and 16%, 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 which are generally in the range of 30% to 40%. As a result, the overall gross margin was a blend of these margins that is weighted towards the services margin.

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Third Quarter Fiscal 2006

	Q3 F2007	Q3 F2006	Change	Percentage
Gross Margin	\$2,647,662	\$1,545,954	\$1,101,708	71.3%
Gross Margin %	52%	35%		

The increase in gross margin percentage in the third quarter of 2007, as compared to the third 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 third quarter of fiscal 2006 due to a significant customer suspending a project during the quarter, and technical challenges associated with new semiconductor technology. These challenges did not reoccur in the current quarter. The ratio of services revenue to software revenue remained relatively consistent in the comparative quarters.

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Second Quarter Fiscal 2007

	Q3 F2007	Q2 F2007	Change	Percentage
Gross Margin	\$2,647,662	\$2,482,273	\$165,389	6.7%
Gross Margin %	52%	49%		

Gross margin increased marginally as compared to the prior quarter primarily as the result of the Company continuing to successfully execute 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	\$7,446,149	\$5,040,811	\$2,405,338	47.7%
Gross Margin %	49%	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 the suspension of a significant customer contract, and technical challenges associated with new semiconductor technology. 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

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Third Quarter Fiscal 2006

	Q3 F2007	Q3 F2006	Change	Percentage
Administration Expense	\$1,415,617	\$1,211,953	(\$203,664)	(16.8%)

The increase in administration expense is largely due to the increased expenses required to support the increase in scope and geographic locations of the Company's operations. Staffing related expenses increased by approximately \$158,000, and office rents increased by approximately \$76,000.

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Second Quarter Fiscal 2007

	Q3 F2007	Q2 F2007	Change	Percentage
Administration	\$1,415,617	\$1,411,021	(\$4,596)	(0.3%)

Administrative expenses were relatively consistent with the prior quarter. There was a decrease in expenses as the cost of the consulting arrangement with a former officer of the Company of approximately \$200,000 were not duplicated in the current quarter. This decrease was offset by an increase of \$65,000 in director fees and a decrease in the amount of bad debt recoveries of approximately \$60,000 in the 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	\$3,950,575	\$3,961,308	\$10,733	0.3%

Year to date administration expenses are relatively consistent with those incurred in the prior year. The Company has increased its scope of operations and the number of geographic locations it operates within during the current year resulting in increased office rents of approximately \$239,000. This increase has been offset by an increase in bad debt recoveries of approximately \$129,000 and a reduction in consulting fees of \$63,000 compared with the prior year.

Marketing and Sales Expenses

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Third Quarter Fiscal 2006

	Q3 F2007	Q3 F2006	Change	Percentage
Marketing and Sales	\$1,734,161	\$899,821	(\$834,340)	(92.7%)

Marketing and sales costs increased significantly in the third quarter of 2007 compared to the third quarter of 2006 due to more activity in support of the release of the Company's Soleus product. Salaries and related costs increased \$387,000, travel expenses increased \$89,000, and consulting related expenses increased by approximately \$169,000. These increases were the result of the increase in headcount in sales and marketing in the comparative periods and of more activity in the marketing and sales group occurring in the third quarter of 2007 to support the Soleus go-to-market strategy.

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Second Quarter Fiscal 2007

	Q3 F2007	Q2 F2007	Change	Percentage
Marketing and Sales	\$1,734,161	\$1,696,643	(\$37,518)	(2.2%)

Marketing and sales costs were consistent in the third quarter as compared to the second quarter of fiscal 2007. The Company incurred tradeshow costs of approximately \$160,000 for attendance at the 3GSM World Congress tradeshow during the second quarter that did not reoccur in the third quarter. This decrease in tradeshow expense was offset by an increase in recruiting fees incurred to add additional staff to the marketing and sales group. The Company spent an additional \$71,000 in the quarter related to consulting fees incurred in support of the Soleus-go-to market strategy.



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	\$4,763,462	\$2,590,737	(\$2,172,725)	(83.9%)

Marketing and sales costs increased year to date in fiscal 2007 as compared to year to date in fiscal 2006 due to increased salary and salary related costs of approximately \$1.1 million, associated with headcount increases in sales and marketing to support the release of the Company's Soleus product, increased tradeshow costs of approximately \$160,000 for attendance at the 3GSM tradeshow during the year, an increase of approximately \$316,000 relating to increased travel expenses for travel to the 3GSM tradeshow and to support the release of the Soleus product, and an increase of \$344,000 in consulting fees incurred in support of the Soleus-go-to market strategy.

Research and Development

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Third Quarter Fiscal 2006

	Q3 F2007	Q3 F2006	Change	Percentage
Research And Development - Soleus	\$2,951,124	\$2,929,574	(\$21,550)	(0.7%)
Other Research & Development	\$1,823	\$61,925	\$60,102	97.1%
Total Research and Development	\$2,952,947	\$2,991,499	\$38,552	1.3%

Research and development expenditures were relatively consistent with the comparable period as there was an increase in full time staff costs and a decrease in temporary employee costs that resulted in a net increase in staffing costs of approximately \$113,000. This increase was offset by a decline of approximately \$73,000 relating to consulting in the current year as the Company did not rely on external consultants as much in the third quarter of the current year as it did in the third 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.

Third Quarter Fiscal 2007

Comparison of Third Quarter Fiscal 2007 and Second Quarter Fiscal 2007

	Q3 F2007	Q2 F2007	Change	Percentage
Research And Development - Soleus	\$2,951,124	\$3,300,680	\$349,556	10.6%
Other Research and Development	\$1,823	\$1,022	(\$801)	(78.4%)
Total Research and Development	\$2,952,947	\$3,301,702	\$348,755	10.6%

Staff and related costs, including temporary employees working in support of the Soleus product, decreased by approximately \$390,000 in the third quarter of 2007 as compared to the second quarter of 2007 as the number of staff working on the Soleus development project decreased now that the product has been released



commercially. This was partially offset by an increase of \$91,000 in professional fees during the third quarter incurred in support of the development effort. Expenditures on other research and development activities have declined due a reduction of research and development efforts related to the Company's hardware and interoperability products. The Company expects it will continue to spend a significant amount on further development of the Soleus product in the future.

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	\$9,201,914	\$6,977,623	(\$2,224,291)	(31.9%)
Other Research and Development	\$29,006	\$315,644	\$286,638	90.8%
Total Research and Development	\$9,230,920	\$7,293,267	(\$1,937,653)	(26.6%)

The increase in staff and temporary employees in research and development primarily working on the development of the Soleus product in the current year drove approximately \$2.3 million of the increase in research and development costs. Additionally, office costs increased by approximately \$347,000 to support the increases in headcount. These increases were partially offset by decreases of approximately \$356,000 relating to tradeshow costs in the prior year discussed above, and a decrease of approximately \$230,000 relating to consulting services provided in the prior year and not incurred in the current year. Reduced costs in other research and development reflect the reduction in the size of the team completing research and development activities in the Company's engineering services and interoperability software business units.

Summary of Quarterly Results

\$Millions	Q3 F2007	Q2 F2007	Q1 F2007	Q4 F2006	Q3 F2006	Q2 F2006	Q1 F2006	Q4 F2005
Revenue	\$5.1	\$5.0	\$5.0	\$4.9	\$4.4	\$4.8	\$4.6	\$5.4
Loss	(\$4.4)	(\$4.2)	(\$4.3)	(\$4.4)	(\$4.7)	(\$4.5)	(\$2.7)	(\$1.5)
Loss per Share	(\$0.05)	(\$0.05)	(\$0.05)	(\$0.05)	(\$0.06)	(\$0.08)	(\$0.05)	(\$0.03)

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

Liquidity and Capital Resources

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at May 31, 2007, the Company had cash and cash equivalents totaling approximately \$21.4 million,



with working capital¹ of \$20.8 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 May 31, 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 approximately \$33,000 on earnings before income tax for the quarter.

Third Quarter Fiscal 2007 – Cash Flows

Comparison of Third Quarter Fiscal 2007 and Third Quarter Fiscal 2006

Cash Provided by (used in):	Q3 F2007	Q3 F2006	Change
Operating Activities	(\$2,682,793)	(\$3,383,826)	\$701,033
Investing Activities	(\$103,708)	(\$143,266)	\$39,558
Financing Activities	\$18,225,396	\$21,796,128	(\$3,570,732)
Increase in Cash and Cash Equivalents	\$15,438,895	\$18,269,036	(\$2,830,141)

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 \$3.3 million in the third quarter.

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 generated by financing activities in the current quarter relates to the public offering of 33,334,000 common shares that closed on May 10, 2007 for gross proceeds to the Company of \$20 million and net proceeds after expenses of \$18.2 million. Financing activities in the third quarter of 2006 related to a public offering of units.

Subsequent to the end of the quarter the underwriters' partially exercised their over-allotment option resulting in further net proceeds to the Company of approximately \$1.8 million.

Third Quarter 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	(\$11,632,869)	(\$8,957,797)	(\$2,675,072)
Investing Activities	(\$366,867)	(\$678,382)	\$311,515
Financing Activities	\$10,901,727	\$28,754,473	(\$17,852,746)
Increase (Decrease) In Cash and Cash Equivalents	(\$1,098,009)	\$19,118,294	(\$20,216,303)

⁽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 ended the third quarter of fiscal 2007 with cash and cash equivalents totaling \$21.4 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, offset by the Company's \$20 million gross proceeds public offering that closed May 10, 2007.

Cash used in operating activities increased by approximately \$2.7 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 \$3.3 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 \$0.9 million related to payment of liabilities accrued at year end and paid in the current fiscal year, this is partially offset by a increase in collection of accounts receivable of \$0.8 million that were in accounts receivable at year end.

Cash used in investing activities decreased by approximately \$312,000 year to date in 2007 compared to year to date in 2006 and relates to the purchase of equipment in both periods.

The decrease in cash generated by financing activities primarily reflects the repayment of the \$8.0 million debentures in the current period offset by net proceeds of \$18.2 million from the Company's public offering closed during the current year. The prior years cash generated from financing activities is a result of the proceeds from the issuance of the debentures and the prior years' public offering.

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. Minimum lease payments are as follows:

Contractual Obligations \$Millions	Total	F2007	F2008	F2009	F2010	F2011	F2012
Operating Lease Obligations	\$5.3	\$0.3	\$1.4	\$1.5	\$1.2	\$0.5	\$0.4

As at July 11, 2007, the Company had 119,429,269 common shares outstanding, 7,963,935 share options outstanding and 21,347,545 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.



Government Assistance

As set out in the consolidated financial statements as at, and for the three and nine month periods ended May 31, 2007 and 2006, the Technology Partnerships Canada (“TPC”) audit of the Company’s TPC submissions is complete.

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 to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of \$3.8 million in contributions during the term of the agreement.

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.

The Company has received correspondence from the Industrial Technology Office (“ITO” formerly “TPC”) dated May 29, 2007 indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and a request for repayment of approximately \$929,183 in addition to the already recorded \$22,063 will be made.

The Company is in the process of evaluating the correspondence and the contribution agreement in order to determine the reasons for the disallowed claims and whether it will appeal the determination following the rights available to the Company under the agreement. At this time, the Company is unable to assess the likelihood of success of the ITO’s request for repayment of the requested amounts or arrive at an estimate for the quantum of any future negotiated repayments. Any amount the Company pays the ITO in excess of the accrued \$22,063 will result in an additional loss that would be recorded in future periods.

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 nine months ended May 31, 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 May 31, 2007 the Company had no outstanding forward exchange contracts to sell United States dollars.

RISKS AND UNCERTAINTIES

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



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

Additional Financing

The Corporation currently operates at a loss and uses cash raised in capital markets to fund working capital. If adequate funds are not available with required or on acceptable terms, the Corporation 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 Corporation will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering will result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests.

Research and Development

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

Major Industry Software Vendor Partners May Become Competitors

The Corporation 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, 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 Corporation provides. The ability of the Corporation's customers or potential customers to obtain software products and services directly from Microsoft or Symbian that compete with the Corporation's software products and services could harm the Corporation's business.

History of Losses

The Corporation has a history of losses, and there can be no assurance that the Corporation's revenue will continue to grow. As at May 31, 2007, the Corporation had an accumulated deficit of approximately \$64.8 million. The Corporation's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Corporation to accurately predict its operation results with respect to product development and sales and marketing initiatives. There can be no assurances that implementation of the Corporation's strategies will result in the Corporation becoming profitable.



Product Development and Technological Change

The market for the Corporation's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Corporation 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 Corporation 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 Corporation'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 May 31, 2007, approximately 53% of the Corporation's consolidated revenue was attributable to its two largest customers. During the three months ended May 31, 2006 approximately 24% 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 Corporation 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 Corporation or its competitors, and the gain or loss by the Corporation of significant orders or broad market fluctuations.

Dependence on Management

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



Sales and Marketing and Strategic Alliances

If the Corporation 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 Corporation 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 Corporation's interests.

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

Length of Sales Cycle

The typical sales cycle of the Corporation'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 Corporation's products and services. The purchase of the Corporation's products and services is often delayed while prospective customers conduct lengthy internal reviews and obtain expenditure approvals. Even after deciding to purchase the Corporation's products or services, the Corporation'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 Corporation's products are to integrate. As a result, the Corporation's quarterly financial results may vary significantly.

Intellectual Property Protection

The Corporation'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 Corporation 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 Corporation's technology is difficult, and the prohibitive cost of litigation may impair the Corporation's ability to prosecute any infringement. The commercial success of the Corporation will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being



made against the Corporation. The Corporation 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 Corporation by a third party, even if it is invalid, could have a material adverse effect on the Corporation because of the costs of defending against such a claim.

Competition

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

International Expansion of Business Operations

The Corporation 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 Corporation or that they will not have a material adverse impact on the Corporation's business, results of operations and financial conditions.

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 Corporation's profit potential is uncertain and the Corporation's revenue may not grow as fast as the Corporation anticipates, if at all. The Corporation 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 Corporation'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 Corporation is exposed to risks associated with fluctuations in the exchange rate between the United States dollar, the British pound and the Canadian dollar. If the Canadian dollar or British pound rise relative to the United States dollar, the Corporation's operating results may be adversely impacted. The Corporation 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 Corporation'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 Corporation and its competitors, market acceptance of new and enhanced versions of the Corporation's products and the timing of significant orders. Because the Corporation's operating expenses are based on anticipated revenues and a high percentage of the Corporation'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 Corporation's common shares may be highly volatile in response to such quarterly fluctuations.

Management of Growth

The Corporation's growth continues to place significant demands on its management and other resources. The Corporation'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 Corporation'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 Corporation 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 Corporation's management will be diverted from the day-to-day operation of its business. An unsuccessful acquisition could reduce the Corporation'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 Corporation 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 Corporation's license agreements with its customers typically contain provisions designed to limit the Corporation's exposure to potential products liability claims. There can be no assurance that such provisions will protect the Corporation from such claims. The Corporation does not maintain product liability insurance. A successful product liability claim brought against the Corporation could have a material adverse effect upon the Corporation's business, results of operations and prospects.

Future Share Sales

If the Corporation's shareholders sell substantial amounts of the Corporation's Common Shares the market price of the Corporation's Common Shares could decrease. As at July 11, 2007 after completion of the Company's recent public offering and partial exercise of the over-allotment option, the Company had 119,429,269 shares outstanding.

Shareholders' Rights Plan

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

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 Acting Chief Financial Officer have evaluated and are satisfied with the effectiveness of these disclosure controls and procedures for the period ending May 31, 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

The Company's management believes that the market for mobility software and solutions, and specialized devices 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 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.

The Company has made progress in its overall business transition from a primarily US and UK focused embedded services and hardware business to a global wireless software and services business designed to grow with the industry growth of mobility products. In addition to generating its first Soleus software design win as well as an engineering services engagement in Asia, the Company took steps to sunset legacy business. Those actions included the wind-down of a hardware business, closing an engineering office in Singapore and redirection of sales and marketing resources to focus globally on wireless software, silicon and hardware providers.

These actions, in line with the Company's strategic plans, will support the transition to revenue growth in wireless software and services but management anticipates an interim impact on revenues as the legacy business declines and while the strategic business, including Soleus revenues and wireless services engagements ramps up, particularly in Asia and North America. The Company currently expects a quarter-over-quarter decline in revenue in the fourth quarter of fiscal 2007 in the range of 10 percent to 20 percent.



Consolidated Financial Statements
Intrinsyc Software International, Inc.

Unaudited three and nine months
ended May 31, 2007 and May 31, 2006

Intrinsyc Software International, Inc.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	May 31 2007 \$	August 31 2006 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	21,389,067	22,487,076
Accounts receivable <i>[note 4]</i>	2,999,294	3,789,743
Inventory	89,575	110,996
Prepaid expenses - current	299,491	385,816
Total current assets	24,777,427	26,773,631
Prepaid expenses	163,807	61,769
Equipment <i>[note 13]</i>	1,368,611	1,360,832
Goodwill	14,189,478	14,189,478
Intangible assets	319,623	556,120
Deferred financing costs <i>[note 7]</i>	--	516,599
Total assets	40,818,946	43,458,429
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,132,401	4,010,542
Taxes payable	404,212	218,912
Deferred revenue	459,999	542,515
Total current liabilities	3,996,612	4,771,969
Debentures <i>[note 7]</i>	--	7,617,946
Future income taxes	141,294	229,655
Total liabilities	4,137,906	12,619,570
Contingencies and commitments. Subsequent events <i>[notes 9 and 14]</i>		
Shareholders' equity		
Share capital <i>[note 11]</i>	92,399,284	74,623,739
Warrants and underwriters' options <i>[notes 6, 7 and 11]</i>	5,679,848	5,229,997
Contributed surplus <i>[note 12]</i>	3,457,425	2,951,875
Cumulative translation adjustment	(27,792)	(27,792)
Deficit	(64,827,725)	(51,938,960)
Total shareholders' equity	36,681,040	30,838,859
Total liabilities and shareholders' equity	40,818,946	43,458,429

See accompanying notes to unaudited interim consolidated financial statements

On behalf of the Board:

“Glenda Dorchak”
Director

“Robert Gayton”
Director

Intrinsyc Software International, Inc.

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

(Unaudited)

	Three months ended May 31		Nine months ended May 31	
	2007 \$	2006 \$	2007 \$	2006 \$
Revenues [note 13]	5,111,900	4,388,609	15,169,418	13,733,785
Cost of sales	2,464,238	2,842,655	7,723,269	8,692,974
	2,647,662	1,545,954	7,446,149	5,040,811
Expenses				
Administration	1,415,617	1,211,953	3,950,575	3,961,308
Marketing and sales	1,734,161	899,821	4,763,462	2,590,737
Research and development	2,952,947	2,991,499	9,230,920	7,293,267
Amortization [note 5]	204,247	215,772	595,586	868,967
Stock-based compensation [notes 11 and 12]	95,899	250,917	505,550	757,061
Technology Partnerships Canada Funding Investment [note 8]	153,358	122,965	155,083	124,138
	6,556,229	5,692,927	19,201,176	15,595,478
Loss before other expense (income) and income taxes	3,908,567	4,146,973	11,755,027	10,554,667
Other expense (income)				
Foreign exchange loss	488,818	254,189	64,517	450,748
Interest income	(93,105)	(199,797)	(335,481)	(317,472)
Accretion and amortization – long term debt [note 7]	--	204,568	927,778	538,551
Interest expense – long term debt [note 7]	--	252,055	213,699	657,534
	395,713	511,015	870,513	1,329,361
Loss before income taxes	4,304,280	4,657,988	12,625,540	11,884,028
Income tax expense (recovery)				
Current	107,879	70,557	350,367	137,664
Future	(29,001)	(23,653)	(87,142)	(57,973)
	78,878	46,904	263,225	79,691
Loss for the period	4,383,158	4,704,892	12,888,765	11,963,719
Deficit, beginning of period	60,444,567	42,804,453	51,938,960	35,545,626
Deficit, end of period	64,827,725	47,509,345	64,827,725	47,509,345
Loss per share (basic and diluted)	0.05	0.06	0.15	0.19
Weighted average number of shares outstanding	91,014,543	74,588,417	85,729,625	62,420,626

See accompanying notes to unaudited interim consolidated financial statements

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended May 31		Nine months ended May 31	
	2007	2006	2007	2006
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(4,383,158)	(4,704,892)	(12,888,765)	(11,963,719)
Items not involving cash				
Amortization	204,247	215,772	595,586	868,967
Future income taxes	(33,758)	(25,352)	(88,361)	(17,650)
Stock-based compensation	95,899	250,917	505,550	757,061
Accretion and amortization – long term debt	--	204,568	222,322	538,551
Changes in non-cash operating working capital				
Accounts receivable	983,249	147,677	790,449	323,478
Inventory	39,735	5,971	21,421	(614)
Prepaid expenses	96,409	132,502	(15,713)	96,049
Accounts payable and accrued liabilities	304,203	262,095	(878,142)	829,518
Taxes payable	109,038	(8,721)	185,300	(157,150)
Deferred revenue	(98,657)	135,637	(82,516)	(232,288)
Cash used in operating activities	(2,682,793)	(3,383,826)	(11,632,869)	(8,957,797)
INVESTING ACTIVITIES				
Purchase of equipment	(103,708)	(143,266)	(366,867)	(678,382)
Cash used in investing activities	(103,708)	(143,266)	(366,867)	(678,382)
FINANCING ACTIVITIES				
Issuance of common shares <i>[note 6]</i>	20,000,400	24,117,861	20,000,400	24,119,811
Share issuance costs <i>[note 6]</i>	(1,775,004)	(2,321,733)	(1,775,004)	(2,321,733)
Debentures <i>[note 7]</i>	--	--	(8,000,000)	8,000,000
Debentures issuance costs <i>[note 7]</i>	--	--	(29,125)	(1,043,605)
Accretion and amortization realized on early redemption of debentures <i>[note 7]</i>	--	--	705,456	--
Cash provided by financing activities	18,225,396	21,796,128	10,901,727	28,754,473
Increase (decrease) in cash and cash equivalents	15,438,895	18,269,036	(1,098,009)	19,118,294
Cash and cash equivalents, beginning of period	5,950,172	8,167,468	22,487,076	7,318,210
Cash and cash equivalents, end of period	21,389,067	26,436,504	21,389,067	26,436,504
Supplementary information				
Interest paid	--	253,983	213,897	666,150
Income taxes paid	--	59,870	211,076	105,693

See accompanying notes to unaudited interim consolidated financial statements

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 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 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 nine month periods ended May 31, 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 nine months ended May 31, 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

The Company established an operating line of credit for borrowings up to \$5,000,000, bearing interest at prime rate plus 0.5%. Prime rate was 6.0% at May 31, 2007 [August 31, 2006 – 6.0%]. The line is collateralized by eligible accounts receivable. There was no borrowing outstanding against the operating line of credit as at May 31, 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 \$13,400 (\$12,500 USD). There was no borrowing outstanding against the overdraft as at May 31, 2007 [August 31, 2006 – Nil].

4. ACCOUNTS RECEIVABLE

	May 31 2007 \$	August 31 2006 \$
Trade and miscellaneous receivables	2,729,339	3,129,351
Unbilled revenue	269,955	660,392
	2,999,294	3,789,743

5. AMORTIZATION

	Three Months Ended May 31		Nine Months Ended May 31	
	2007 \$	2006 \$	2007 \$	2006 \$
Equipment	125,414	112,400	359,088	291,343
Intangible assets	78,833	103,372	236,498	577,624
	204,247	215,772	595,586	868,967

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2007

Unaudited

6. PUBLIC OFFERINGS

[a]

On May 3, 2007, the Company announced that it had entered into an agreement with a group of underwriters in connection with a public offering of common shares. On May 10, 2007, 33,334,000 common shares were issued with gross proceeds amounting to \$20,000,400 at \$0.60 per common share with \$1,775,004 of cash underwriters' fees and expenses resulting in net cash proceeds of \$18,225,396. The Company has granted the underwriters an over-allotment option, exercisable for a period of 30 days following closing of the offering, to purchase up to an additional 15% of the number of common shares issued pursuant to the offering. As of May 31, 2007, this option had not been exercised. On June 7, 2007 the underwriters partially exercised their option and purchased 3,051,900 common shares with gross proceeds amounting to \$1,831,140 [note 14]. The balance of the over-allotment option expired unexercised on June 10, 2007.

The underwriters received 1,666,700 compensation options ("underwriters' options"). This equates to 5% of the common shares sold under the offering. Each compensation option is exercisable to purchase one common share at the offering price for a period of two years following the closing date of May 10, 2007. The underwriters' options were valued at \$449,851. This amount has been classified as Warrants and Underwriters' Options in the share capital section of the balance sheet. On June 7, 2007 the underwriters received 152,595 compensation options ("underwriters' options"). This equates to 5% of the common shares sold under the over-allotment offering. Each compensation option is exercisable to purchase one common share at the offering price for a period of two years following the closing date of June 7, 2007.

The fair values of the underwriters' options recorded in shareholders' equity were determined using the Black-Scholes Option Pricing Model.

[b]

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. This amount has been classified as Warrants and Underwriters' Options in the share capital section of the balance sheet.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2007

Unaudited

6. PUBLIC OFFERINGS (cont'd.)

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 nine months ended May 31, 2007, the Company recorded \$382,054 [May 31, 2006 - \$220,642] 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 nine months ended May 31, 2007, the Company recorded \$545,724 [May 31, 2006 - \$317,909] 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 and nine months ended May 31, 2007

Unaudited

7. DEBENTURES (cont'd.)

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

	Three Months Ended May 31		Nine Months Ended May 31	
	2007	2006	2007	2006
	\$	\$	\$	\$
Non-cash accretion of debentures from carrying value to face value	--	85,352	73,982	220,642
Non-cash accretion realized due to early payment of debentures	--	--	308,072	--
Non-cash amortization of debt financing charges	--	119,216	119,215	317,909
Non-cash amortization realized due to early payment of debentures	--	--	397,384	--
Additional legal, professional and transaction fees	--	--	29,125	--
	--	204,568	927,778	538,551
Cash interest expense	--	252,055	213,699	657,534
	--	456,623	1,141,477	1,196,085

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 to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of \$3.8 million in contributions during the term of the agreement. In exchange for these contributions, the Company has agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over \$10,000,000 until August 31, 2011. To date the Company has paid and accrued approximately \$646,266 to TPC in royalties.

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. The Company has received further communication from TPC dated May 29, 2007. A discussion of this letter is outlined in note 9. - Commitments and Contingencies.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2007

Unaudited

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	334,000
2008	1,376,000
2009	1,480,000
2010	1,187,000
2011	521,000
2012	396,000
	<u>5,294,000</u>

The Company has received correspondence from the Industrial Technology Office (“ITO” formerly “TPC”) dated May 29, 2007 indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and a request for repayment of approximately \$929,183 in addition to the already recorded \$22,063 (See note 8 – Government assistance) will be made.

The Company is in the process of evaluating the correspondence and the contribution agreement in order to determine the reasons for the disallowed claims and whether it will appeal the determination following the rights available to the Company under the agreement. At this time, the Company is unable to assess the likelihood of success of the ITO's request for repayment of the requested amounts or arrive at an estimate for the quantum of any future negotiated repayments. Any amount the Company pays the ITO in excess of the accrued \$22,063 will result in an additional loss that would be recorded in future periods.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2007

Unaudited

10. EMPLOYEE PENSION CONTRIBUTIONS

	Three Months Ended		Nine Months Ended	
	May 31		May 31	
	2007	2006	2007	2006
	\$	\$	\$	\$
Benefit costs	188,319	176,502	500,581	454,379

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	83,043,369	74,623,739
Shares issued in connection with public offering [note 6a]	33,334,000	17,775,545
Outstanding, May 31, 2007	116,377,369	92,399,284

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 6,687,930 are outstanding as at May 31, 2007.

Subsequent to May 31, 2007, option grants totalling 1,401,205 were issued. As 4,109,024 options have been exercised to-date, the total options available for issue are 7,885,545.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2007

Unaudited

11. SHARE CAPITAL (cont'd.)

A summary of the Company's share option activity for the nine months ended May 31, 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	(974,808)	1.78
Outstanding, May 31, 2007	6,687,930	0.82

The following table summarizes the share options outstanding at May 31, 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	2,511,865	3.35	0.51	1,115,483	0.55
0.75 – 1.10	2,843,340	3.19	0.89	1,472,177	0.93
1.11 – 3.21	1,332,725	2.28	1.24	956,408	1.23
	6,687,930	3.07	0.82	3,544,068	0.89

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>Nine Months Ended</u>	
	May 31		May 31	
	2007	2006	2007	2006
Expected life in years	4.00	4.00	4.00	4.00
Risk-free interest rate	4.66%	4.06%	4.29%	3.91%
Volatility	87.2%	174.7%	85.3%	172.8%
Dividend yield	0%	0%	0%	0%

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2007

Unaudited

11. SHARE CAPITAL (cont'd.)

Warrants & Underwriters' Options

	Outstanding warrants & Underwriters' options		
	Number of warrants and underwriters' options	Weighted average exercise price \$	Amount \$
Warrants [note 7]	3,870,968	0.62	599,143
Warrants [note 6b]	13,398,201	1.05	4,084,584
Underwriters' compensation options [note 6b]	1,607,784	0.90	391,711
Underwriters' compensation warrants [note 6b]	803,892	1.05	154,559
Outstanding, August 31, 2006	19,680,845	0.95	5,229,997
Underwriters' compensation options [note 6a]	1,666,700	0.60	449,851
Outstanding, May 31, 2007	21,347,545	0.88	5,679,848

12. CONTRIBUTED SURPLUS

	Three Months Ended May 31		Nine Months Ended May 31	
	2007 \$	2006 \$	2007 \$	2006 \$
Contributed surplus – opening balance	3,361,526	2,542,904	2,951,875	1,896,760
Warrants expired	--	--	--	140,000
Stock-based compensation expense	95,899	250,917	505,550	757,061
Contributed surplus – closing balance	3,457,425	2,793,821	3,457,425	2,793,821

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 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:

	May 31, 2007 \$	August 31, 2006 \$
United States	387,670	280,828
Canada	887,769	963,623
Europe	93,172	116,381
	1,368,611	1,360,832

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

	Three Months Ended May 31		Nine Months Ended May 31	
	2007 \$	2006 \$	2007 \$	2006 \$
United States	2,858,303	2,166,856	8,992,962	7,106,203
Canada	368,775	59,055	1,060,440	542,074
Europe	1,817,519	2,125,739	4,976,584	5,610,497
Other	67,303	36,959	139,432	475,011
	5,111,900	4,388,609	15,169,418	13,733,785

Significant customers

	% of Sales Three Months Ended May 31		% of Sales Nine Months Ended May 31		% of Accounts Receivable May 31
	2007	2006	2007	2006	2007
Customer 1	28%	4%	27%	2%	9%
Customer 2	25%	20%	22%	16%	7%
Total	53%	24%	49%	18%	16%

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended May 31, 2007

Unaudited

14. SUBSEQUENT EVENT

On May 10, 2007, 33,334,000 common shares were issued with gross proceeds amounting to \$20,000,400 at \$0.60 per common share with \$1,775,004 of cash underwriters' fees and expenses resulting in net cash proceeds of \$18,225,396 [note 6a]. The Company has granted the underwriters an over-allotment option, exercisable for a period of 30 days following closing of the offering, to purchase up to an additional 15% of the number of common shares issued pursuant to the offering. On June 7, 2007 the underwriters partially exercised their option and purchased 3,051,900 common shares with gross proceeds amounting to \$1,831,140. The balance of the over-allotment option expired unexercised on June 10, 2007.

15. 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.