



2007 Transition Period Financial Report

**For the four month financial year ended
December 31, 2007**

**INTRINSYC SOFTWARE INTERNATIONAL, INC.
10th Floor, 700 West Pender Street
Vancouver, British Columbia
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Management's Discussion & Analysis

Change in Year-End

The year-end of the Company was changed from August 31 to December 31. The current fiscal period ended December 31, 2007 consists of operations as at and for the four-month period then ended. Comparative figures as at and for the year ended August 31, 2007 reflect the twelve-month period then ended.

This Management's Discussion and Analysis covers the audited consolidated financial statements of Intrinsic Software International, Inc. (the "Company") as at, and for the four-month period ended December 31, 2007.

Management's Discussion and Analysis of the financial condition and results of operations of the Company should be read in conjunction with the 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.

Note about Forward-Looking Statements

The following Management's Discussion and Analysis may contain certain information of a forward-looking nature. Such information may include estimates, projections or statements relating to the Company's business plans, objectives and expected operating results. These statements generally are 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. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risks and Uncertainties". 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 otherwise, except as required by law.

Overview

The following table presents selected financial data for the Company's transition period and two most recently completed fiscal years:

Balance Sheets *(in thousands of dollars)*

As at	December 31, 2007		August 31, 2007		August 31, 2006
Cash and cash equivalents	\$	12,048	\$	19,629	\$ 22,487
Working capital	\$	11,673	\$	18,563	\$ 22,002
Total assets	\$	32,406	\$	39,333	\$ 43,458
Long-term debt	\$	-	\$	-	\$ 7,618
Other long-term financial liabilities	\$	137	\$	184	\$ 230

Statements of Operations *(in thousands of dollars, except per share amounts)*

For the twelve months ended	December 31, 2007 (4 months)		August 31, 2007		August 31, 2006
Revenue	\$	5,221	\$	19,706	\$ 18,658
Gross margin		1,902		9,672	7,340
Expenses					
Administration		2,162		5,219	5,408
Marketing and sales		2,362		6,591	3,457
Research and development		3,346		12,026	10,970
Amortization		284		821	1,061
Stock-based compensation		230		669	915
Technology Partnerships Canada					
Funding Investment		-		291	261
Loss before other items and income taxes		(6,483)		(15,945)	(14,732)
Other items		753		737	1,531
Loss before income taxes		(7,236)		(16,682)	(16,263)
Income tax expense		58		316	131
Loss	\$	(7,294)	\$	(16,998)	\$ (16,394)
Loss per share	\$	(0.06)	\$	(0.18)	\$ (0.24)

The following table presents selected financial data for the Company's most recently completed quarters:

Balance Sheets (in thousands of dollars)

As at	Dec-07 (4 months)	Aug-07	May-07	Feb-07	Nov-06	Aug-06	May-06	Feb-06
Cash and cash equivalents	\$ 12,048	\$ 19,629	\$ 21,389	\$ 5,950	\$ 9,169	\$ 22,487	\$ 26,437	\$ 8,167
Working capital	\$ 11,673	\$ 18,563	\$ 20,781	\$ 6,752	\$ 10,791	\$ 22,002	\$ 26,016	\$ 8,418
Total assets	\$ 32,406	\$ 39,333	\$ 40,819	\$ 26,600	\$ 30,888	\$ 43,458	\$ 47,235	\$ 29,444
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,618	\$ 7,532	\$ 7,446
Other long-term financial liabilities	\$ 137	\$ 184	\$ 141	\$ 175	\$ 203	\$ 230	\$ 244	\$ 269
Shareholders' equity	\$ 27,505	\$ 34,444	\$ 36,681	\$ 22,743	\$ 26,780	\$ 30,839	\$ 35,129	\$ 17,787

Statements of Operations (in thousands of dollars, except per share amounts)

For the three months ended	Dec-07 (4 months)	Aug-07	May-07	Feb-07	Nov-06	Aug-06	May-06	Feb-06
Revenue	\$ 5,221	\$ 4,536	\$ 5,112	\$ 5,036	\$ 5,021	\$ 4,924	\$ 4,389	\$ 4,792
Gross margin	1,902	2,226	2,648	2,482	2,316	2,299	1,546	1,611
Expenses								
Administration	2,162	1,269	1,416	1,411	1,124	1,447	1,212	1,361
Marketing and sales	2,362	1,827	1,734	1,697	1,333	866	900	884
Research and development	3,346	2,795	2,953	3,302	2,976	3,676	2,991	2,653
Amortization	284	226	204	213	179	192	216	431
Stock-based compensation	230	163	96	210	200	158	251	302
Technology Partnerships Canada								
Funding Investment	-	136	153	2	-	137	123	-
Loss before other items and income taxes	(6,483)	(4,190)	(3,909)	(4,351)	(3,495)	(4,177)	(4,147)	(4,019)
Other items	753	(133)	396	(232)	706	201	511	476
Loss before income taxes	(7,236)	(4,057)	(4,304)	(4,120)	(4,202)	(4,379)	(4,658)	(4,495)
Income tax expense	58	53	79	127	57	51	47	34
Loss	\$ (7,294)	\$ (4,110)	\$ (4,383)	\$ (4,247)	\$ (4,259)	\$ (4,430)	\$ (4,705)	\$ (4,529)
Loss per share	\$ (0.06)	\$ (0.03)	\$ (0.05)	\$ (0.05)	\$ (0.05)	\$ (0.05)	\$ (0.06)	\$ (0.08)

(Note: minor arithmetical differences are due to rounding)

RESULTS OF OPERATIONS

The year-end of the Company was changed from August 31 to December 31. The current fiscal period ended December 31, 2007 consists of operations as at and for the four-month period then ended. Comparative figures as at and for the year ended August 31, 2007 reflect the twelve-month period then ended.

In accordance with National Instrument 51-102, "Continuous Disclosure Obligations" the Company has not prepared interim financial statements during the four-month transition period ended December 31, 2007. The audited consolidated financial statements as at December 31, 2007 include the consolidated statements of operations, comprehensive loss and deficit for the four months ended December 31, 2007 and the year ended August 31, 2007.

The following analysis of the results of operations for the four months ended December 31, 2007 includes comparisons to the three-month period ended August 31, 2007 and the three-month period ended November 30, 2006. Management believes a comparison of four-month results ended December 31, 2007 to twelve-month results ended August 31, 2007 would provide little insight to the reader regarding the relative performance of the Company, due to the disproportionate duration of the two periods, and therefore will not be provided herein.

	December 31, 2007		August 31, 2007		November 30, 2006				
Three months ended	(4 months)								
Services revenue	\$	4,055	78%	\$	3,809	84%	\$	4,229	84%
Hardware revenue	\$	617	12%	\$	128	3%	\$	353	7%
Software revenue	\$	549	10%	\$	599	13%	\$	439	9%
Total revenue	\$	5,221	100%	\$	4,536	100%	\$	5,021	100%

(Note: figures in thousands of dollars, except percentages)

Comparison of Four months ended December 31, 2007 and Three months ended August 31, 2007

Revenue for the four-month period ended December 31, 2007 was \$5.2 million as compared to \$4.5 million for the three months ended August 31, 2007. The relative decrease in the rate of revenue being recognized is generally due to the weakening of the US dollar during the period as the Company earns most of its revenue in US dollars. The impact of the weakening US dollar in the period was approximately \$425,000 from what revenue would have been had exchange rates remained consistent with the comparable period. The Company has also changed its focus to wireless engineering services and the development of its Soleus product from general embedded services. As a result of the Company's changed focus, it expects future material revenue to continue to be driven from its services business and to be realized from the shipment of Soleus-based devices into the market.

Hardware revenue increased from 3% of revenue to account for 12% of revenue for the four months ended December 31, 2007. The increase in hardware revenue was due to new contracts and shipments completed during the period. The Company intends to exit the reference design platform business and as a result revenue increased as customers placed orders to satisfy their expected demands. The Company has no plans to invest further in these products and expects future revenues from these products will decline.

Software revenue consists of both Soleus and Enterprise Interoperability licensing revenue and software maintenance revenue. Overall software revenue for the period declined by 8% from the

August 31, 2007 period and declined from 13% to 10% of total revenue. This decline is due to the continued sunsetting of the Enterprise Interoperability business. Revenue from the Soleus software platform increased from approximately \$80,000 to approximately \$140,000 in the period.

Services revenue rose slightly from \$3.8 million to \$4.1 million, but declined as a percentage of total revenue from 84% to 78%. Services revenue did not increase at the rate expected by management in the four-month period, as the Company transitions its focus to wireless software engineering work and away from traditional general embedded work. Additionally, the Company experienced a delay in signing a contact amendment during the transition period that negatively impacted revenue. The Company has also entered into several engagements during the period to provide services to enable its Soleus for lower than traditional amounts; this has also negatively impacted revenue.

Comparison of Four months ended December 31, 2007 and Three months ended November 30, 2006

Revenue for the four-month period ended December 31, 2007 was \$5.2 million as compared to \$5.0 million for the three-month period ended November 30, 2006. The weakening of the US dollar in the transition period had an approximate \$675,000 impact on revenue from what revenue would have been if exchange rates had remained constant with the comparable period. The remaining increase in revenue was due in part to a 25% increase in software revenue as a result of Soleus revenues realized in the current period. There was no Soleus revenue in the comparative period. The Company intends to exit the reference design platform business and as a result revenue increased as customers placed orders to satisfy their expected demands. Services revenue declined slightly in the current period as compared to the three-month period ended November 30, 2006. The Company's ongoing transition to wireless engineering service work from general embedded services engagements, has negatively impacted services revenue.

Gross Margin

	December 31, 2007	August 31, 2007	November 30, 2006
Three months ended	(4 months)		
Gross margin	\$ 1,902	\$ 2,226	\$ 2,316
Gross margin percentage	36%	49%	46%

(Note: figures in thousands of dollars, except percentages)

Gross margin percentages on licensing revenue of approximately 75% to 85% are significantly higher than the gross margin percentages obtained on services revenue, which are generally in the range of 30% to 40%. As a result, the overall gross margin percentage is a blend of these margins that is weighted towards the service's gross margin percentage.

Comparison of Four months ended December 31, 2007 and Three months ended August 31, 2007

Gross margin percentage declined from 49% to 36% during the period ended December 31, 2007 compared to the quarter ended August 31, 2007. The reasons for this decline in gross margin percentage include a reduction in the rate of realization of services revenue, the

appreciation of the Canadian dollar compared to the US dollar, and the Company's decision to complete work on several Soleus™ service projects with lower than traditional margins.

Comparison of Four months ended December 31, 2007 and Three months ended November 30, 2006

Gross margin percentage declined from 46% to 36% during the period ended December 31, 2007, compared to the quarter ended November 30, 2006. The reasons for this decline in gross margin percentage are consistent with those outlined above in the comparison to the three months ended August 31, 2007.

Administration Expenses

Three months ended	December 31, 2007	August 31, 2007	November 30, 2006
	(4 months)		
Administration	\$ 2,162	\$ 1,269	\$ 1,124

(Note: figures in thousands of dollars)

Comparison of Four months ended December 31, 2007 and Three months ended August 31, 2007

Administrative costs increased by 70% during the period ended December 31, 2007 compared to the quarter ended August 31, 2007. Administrative costs also increased as a percentage of revenue from 28% to 41%. The August 31, 2007 figure included a partial reversal of prior accruals for fiscal 2007 bonuses. The December 31, 2007 figure included an accrual for fiscal 2008 bonuses. The net impact of a partial reversal in the prior period and a regular accrual in the current period was a change in bonus expense of \$311,000. The overall increase in administrative costs was also a result of the inclusion of an extra month in the current period, additional salaries for new management staff in the Company's Taiwan office, executive recruitment costs and increased travel expenses by management, particularly for travel to the Company's Taiwan office.

Comparison of Four months ended December 31, 2007 and Three months ended November 30, 2006

Administrative costs rose by 92% during the period ended December 31, 2007 compared to the quarter ended November 30, 2006. Increases were consistent with those incurred between the December 31, 2007 and August 31, 2007 periods.

Marketing and Sales Expenses

Three months ended	December 31, 2007	August 31, 2007	November 30, 2006
	(4 months)		
Marketing and sales	\$ 2,362	\$ 1,827	\$ 1,333

(Note: figures in thousands of dollars)

Comparison of Four months ended December 31, 2007 and Three months ended August 31, 2007

Marketing and sales expense increased by 29% during the period ended December 31, 2007, when compared against the quarter ended August 31, 2007. Marketing and sales expense also increased as a percentage of revenue from 40% to 45%. The cost increase was as a result of the one extra month in the current period; additional staff hired in the Company's Taiwan office, increased sales commissions due to higher sales, and increased consulting services as more contractors have been used to support marketing efforts.

Comparison of Four months ended December 31, 2007 and Three months ended November 30, 2006

Marketing and sales expense increased by 77% during the period ended December 31, 2007 compared to the quarter ended November 30, 2006. Marketing and sales expense as a percentage of revenue increased from 27% to 45%. The increase of \$1.0 million in the current period was due to the one extra month in the period, increased compensation for the addition of seven sales and marketing staff and higher sales commissions of \$242,000.

Research and Development

	December 31, 2007	August 31, 2007	November 30, 2006
Three months ended	(4 months)		
Research and development - Soleus	\$ 3,277	\$ 2,693	\$ 2,950
Other research and development	\$ 69	\$ 102	\$ 26
Total research and development	\$ 3,346	\$ 2,795	\$ 2,976

(Note: figures in thousands of dollars)

Comparison of Four months ended December 31, 2007 and Three months ended August 31, 2007

Research and development expense increased by 20% during the period ended December 31, 2007 compared to the quarter ended August 31, 2007. As a percentage of revenue, research and development expense remained consistent at approximately 64% for both periods. The period's 20% increase related to the extra month in the current period and the Company's continued development and commercialization of the Soleus mobile handset platform. The concentration on Soleus development is evidenced by the decline in research and development expenditures on other business lines.

Comparison of Four months ended December 31, 2007 and Three months ended November 30, 2006

Research and development expense increased by 12% during the period ended December 31, 2007 compared to the quarter ended November 30, 2006. Research and development expense as a percentage of revenue rose from 59% to 64%, as the Company continues development of the Soleus platform. Increased research and development expenditures were also due to the extra month in the current period.

Other Items

Three months ended	December 31, 2007 (4 months)	August 31, 2007	November 30, 2006
Foreign exchange loss (gain)	\$ 289	\$ 61	\$ (250)
Loss on disposal of equipment	-	3	-
Interest income	(195)	(197)	(185)
Restructuring	659	-	-
Accretion and amortization - long term debt	-	-	927
Interest expense - long term debt	-	-	214
Other items	\$ 753	\$ (133)	\$ 706

(Note: figures in thousands of dollars)

Comparison of Four months ended December 31, 2007 and Three months ended August 31, 2007

Other items for the four months ended December 31, 2007 increased to net other expenditures of \$753,000, from net other income of \$133,000 in the quarter ended August 31, 2007. The increase in other expenditures was primarily due to a restructuring charge of \$659,000 related to the closure of the Company's services operation in the United Kingdom. Other expenditures also included a foreign exchange loss of \$289,000, due to a \$0.06 decline in the value of the US dollar during the four-month period.

Comparison of Four months ended December 31, 2007 and Three months ended November 30, 2006

Other expenditures for the current period consisted primarily of foreign exchange losses and restructuring charges. Other expenditures in the comparative quarter totaled \$706,000, which was comprised of interest and accretion expenses totaling \$1.1 million, related to the Company's \$8.0 million debenture. These charges were partially offset by foreign exchange gains and interest income of \$250,000 and \$185,000 respectively, in the three month period ended November 30, 2006.

Liquidity and Capital Resources

The Company finances its operations and capital expenditures through cash generated from operations as well as from equity and debt financings. As of December 31, 2007, the Company had cash and cash equivalents totaling \$12.0 million, with working capital¹ of \$11.7 million, as compared to cash and cash equivalents totaling \$19.6 million, with working capital of \$18.6 million as of August 31, 2007.

Cash provided by (used in): Three months ended	December 31, 2007 (4 months)	August 31, 2007	November 30, 2006
Operating activities	\$ (7,537)	\$ (3,260)	\$ (5,916)
Investing activities	\$ (164)	\$ (208)	\$ (78)
Financing activities	\$ 119	\$ 1,708	\$ (7,324)
Decrease in cash and cash equivalents	\$ (7,582)	\$ (1,760)	\$ (13,318)

(Note: figures in thousands of dollars)

For the four-month period ended December 31, 2007, operating activities consumed approximately \$4.3 million more in cash compared to the three-month period ended August 31, 2007. This increase was primarily due to higher expenditures for an additional month of operating results included in the current period. Research and development and sales and marketing activities for the Soleus mobile handset platform increased as increased activity has been required to bring our Soleus product to market. Additionally seasonal working capital movements effected cash used in operations.

Cash used in investing activities was consistent with that of the three-month period ended August 31, 2007. Investing activities reflected the purchase of additional equipment, required to support the growth of the Company's business.

Financing activities during the four-month period ended December 31, 2007 were related to the exercise of warrants. The higher level of financing activities during the three-month period ended August 31, 2007 was due to the exercise of underwriters' overallotment option issued as part of the May 10, 2007 public share offering. No such offering was completed during the four-month period ended December 31, 2007.

The outflow of cash from financing activities during the three months ended November 2006 was due to the early redemption of \$8.0 million in corporate debentures.

Contractual Obligations	Total	F2008	F2009	F2010	F2011	F2012
Operating lease obligations	\$ 4,401	\$ 1,386	\$ 1,300	\$ 1,000	\$ 515	\$ 200

(Note: figures in thousands of dollars)

As at March 19, 2008, the Company had 150,164,011 common shares outstanding, 9,466,900 share options outstanding and 19,696,383 outstanding warrants and underwriters' options.

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

On February 7, 2008, the Company announced that it had entered into an agreement with a group of underwriters in connection with a public offering of common shares. The offering closed on February 27, 2008 and a total of 28,600,000 shares were sold at an offering price of \$1.05 per share for gross proceeds of approximately \$30,030,000.

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 \$10.0 million until August 31, 2011. To date, the Company has paid approximately \$782,357 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 correspondence from the Industrial Technology Office ("ITO" formerly "TPC") dated January 18, 2008 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 has evaluated the correspondence and the contribution agreement, and has engaged in a dialogue with the ITO in order to arrive at a final determination of eligibility of these costs under the program. The original agreement provides for alternative dispute resolution processes to resolve disputes relating to the agreement, which may be pursued in the event that the parties are unable to reach agreement on eligibility of these costs. At this time, the Company is unable to assess the likelihood of 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 the period in which the determination of the amount owed in excess is made.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Intrinsyc prepares its financial statements in accordance with Canadian 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 and the useful lives and valuation of intangible assets. The Company's significant accounting policies are described in Note 2 to the December 31, 2007 consolidated financial statements as at and for the four-month period then ended.

Revenue Recognition

Service revenues consist of revenues from software modification, consulting, implementation, training and integration services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services. For those contracts where the services are not essential to the functionality of any other element of the transaction, the Company determines vendor-specific objective evidence ("VSOE") of fair value for these services based upon normal pricing and discounting practices for these services when sold separately. These services contracts are primarily time and material based contracts. Revenue from these services is recognized at the time such services are rendered by the Company so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

The Company also enters into contracts that are primarily fixed fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems, because these services are essential to the functionality of other elements in the arrangement. Under this method, revenue is recognized using the percentage of completion basis and is calculated based on actual hours incurred compared to the estimated total hours for the services under the arrangement, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer.

The Company recognizes revenue from the sale of software licenses upon the transfer of title to the customer, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. The Company uses the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on VSOE of

the fair value of the undelivered element. If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or as elements are delivered.

The Company's multiple-element sales arrangements include arrangements where software licenses and the associated post contract customer support ("PCS") are sold together. The Company has established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple-element sales arrangement, as substantiated by contractual terms. The Company's multiple-element sales arrangements generally include rights for the customer to renew PCS after the bundled term ends. These rights are irrevocable to the customer's benefit, are for specified prices, are consistent with the initial price in the original multiple-element sales arrangement, and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS and cover similar terms.

In instances where the Company cannot establish VSOE for the individual elements of a multiple element arrangement, the revenue relating to all elements of the arrangement is deferred until all elements are delivered, unless the only undelivered element is PCS in which case the deferred amounts are recognized rateably over the PCS period.

PCS revenue associated with software licenses is recognized rateably over the term of the PCS period, which typically is one year. PCS revenue includes software license updates that provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the PCS period.

The Company recognizes revenue from the sale of hardware products upon the later of transfer of title or upon shipment of the hardware product to the customer so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

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, 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 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 realization is not considered "more likely than not", a valuation allowance is provided.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired less the liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps.

The first step is to compare the carrying amount of the reporting unit to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. Management has completed the first step of the goodwill impairment test as of December 31, 2007 and August 31, 2007.

The second step has not been required, but would be carried out if the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit's goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the first paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations before extraordinary items and discontinued operations.

Intellectual property and other intangible assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

Intellectual property is recorded at cost. Intellectual property related to software is amortized on a straight-line basis over six years.

CHANGES IN ACCOUNTING POLICIES

The Company adopted the following new Handbook sections issued by the Canadian Institute of Chartered Accountants ("CICA") which were effective for fiscal years beginning on or after October 1, 2006, none of which had a significant effect on the consolidated financial statements:

a) Section 3855, "Financial Instruments – Recognition and Measurement", describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under the new standards, the Company is now required to classify: (i) its financial assets as either held-to-maturity, available-for-sale, held-for-trading, or loans and receivables; and (ii) its financial liabilities as either held-for-trading, or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair value with the exception of held-to-maturity investments, loans and receivables, and other financial liabilities, which are measured at amortized cost using the effective interest rate method. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

The Company has made the following classifications:

- Cash and cash equivalents are classified as held for trading and are measured at fair value. This category best describes the Company's current cash management practices.
- Accounts receivable are classified as loans and receivables and recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities are classified as other liabilities and measured at amortized cost using the effective interest rate method.

Under the new standards, a derivative is a financial instrument or other contract whose value changes in response to the change in a specified rate, price or index that requires nominal or no initial investment and which is settled at a future date. Derivative financial instruments are utilized by the Company in the management of its foreign currency risk 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 net earnings each period. For the four months ended December 31, 2007, the Company did not utilize any derivative financial instruments and did not engage in any hedging transaction.

Section 3855 also requires that the Company identify embedded derivatives that require separation from the related host contract and measure any embedded derivatives at fair value.

b) Section 3861, “Financial Instruments – Disclosure and Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

c) Section 1530, “Comprehensive Income”, describes the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale financial instruments. This section describes how to report and disclose comprehensive income and its components. For the four months ended December 31, 2007 and the year ended August 31, 2007, the Company does not have any items that should be presented in other comprehensive income therefore, net loss for the periods is equivalent to comprehensive loss for the periods.

d) Section 3251, “Equity”, replaces section 3250, “Surplus”, and establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530, “Comprehensive Income”. As a result of the adoption of this section, the consolidated financial statements now include a statement of comprehensive loss and deficit. The adoption of this standard resulted in the reclassification of an amount of (\$27,792) previously recorded in “Cumulative translation adjustment” to “Accumulated other comprehensive income”.

e) Section 3865, “Hedges”, describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The Company does not have any hedging items.

The Company adopted the following new CICA Handbook section effective for fiscal years beginning on or after September 1, 2007:

The Company adopted the revised recommendations of CICA section 1506, “Accounting Changes.” The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after September 1, 2007. This section had no impact on the consolidated financial statements for the four-month period ended December 31, 2007.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

The following is an overview of accounting standard changes that the Company will be required to adopt in future years:

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments – Disclosures, and section 3863, Financial Instruments – Presentation. These new standards will be effective for fiscal years beginning on or after October 1, 2007 and the Company will adopt them on January 1, 2008. The Company is in the process of evaluating the disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued section 3031, Inventories, which will replace section 3030, Inventories. This new standard is effective for fiscal years beginning on or after January 1, 2008, and the Company will adopt this section as of this date. Under the requirements of the new standard, inventories will be measured at the lower of cost and net realizable value, cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects will be assigned by using a specific identification of their individual costs, consistent use of either first-in, first-out or weighted average cost is prescribed for other inventories, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories. The Company has not yet determined what the impact of adopting this standard will have on its consolidated financial statements.

Going Concern

Effective January 1, 2008, the Company will be required to adopt the additional requirements of the CICA Handbook Section 1400 – General Standards of Financial Statements. The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company does not anticipate any impact to its financial statements arising from the accounting pronouncement.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning

goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

RISKS AND UNCERTAINTIES

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

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

Additional Financing

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

Research and Development

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

Major Industry Software Vendor Partners May Become Competitors

The Company relies on software developed by Microsoft and Symbian in order to develop and market its products and services. As the developer of Windows Mobile®, Windows® CE, Microsoft® .NET and Symbian-based software technologies, all of which the Company is reliant upon, Microsoft or Symbian or both could add features to their operating systems and application product offerings that directly compete with the software products and services the Company provides. The ability of the Company's customers or potential customers to obtain software products and services directly from Microsoft or Symbian that compete with the Company's software products and services could harm the Company's business.

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's revenue will continue to grow. As at December 31, 2007, the Company had an accumulated deficit of approximately \$76.2 million. The Company's prospects must be considered in the

context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable.

Stock Price Volatility

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

Product Development and Technological Change

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

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

Sales and Marketing and Strategic Alliances

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

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

Dependence on a Small Number of Customers

The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. During the four-month period ended December 31, 2007, approximately 45% of the Company's consolidated revenue was attributable to its largest customer.

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 Company. Moreover, the success of the Company 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.

Length of Sales Cycle

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

Intellectual Property Protection

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

Competition

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

International Expansion of Business Operations

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

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

The market for mobile device and interoperability software and services is emerging and the potential size of this market and the timing of its development are not well known. As a result, the Company's profit potential is uncertain and the Company's revenue may not grow as fast as the Company anticipates, if at all. The Company is dependent upon the broad acceptance by business and consumers of mobile devices, particularly mobile phones utilizing high level operating systems, 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, location-based services, inputting and sharing data and connecting to the Internet; and
- the evolution of industry standards that facilitate the distribution of content over the Internet to these devices via wired and wireless telecommunications systems, satellite or cable.

Foreign Exchange Risk

A substantial portion of the Company's sales are denominated in United States dollars and are made to United States-based customers. Because the Company's operations are based in Canada, the United States, Taiwan and the United Kingdom, the Company is exposed to risks associated with fluctuations in the exchange rate between the United States dollar, the British pound, the New Taiwan dollar and the Canadian dollar. If the Canadian dollar, New Taiwan dollar or British pound rise relative to the United States dollar, the Company's operating results may be adversely impacted.

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on

anticipated revenues and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Dependence on Key Personnel

The Company's future success depends largely on its ability to attract and retain talented employees. The Company's future results of operations will depend in part on the ability of its officers, management and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel. If the Company were to lose the services of any key personnel, the Company may encounter difficulties finding qualified replacement personnel.

Acquisitions

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

Product Liability

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

Future Share Sales

If the Company's shareholders sell substantial amounts of the Company's common shares, the market price of the Company's common shares could decrease. As of March 19, 2008, the Company has 150,164,011 shares outstanding. Additionally, the Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect the lesser of (i) 10% less 1 share of the issued and outstanding common shares of the Company from time to time; and (ii) 30,000,000 common shares of the Company. As of March 19, 2008 the Company has reserved for issuance 15,016,400 common shares under the Company's stock option plan with a total of 9,466,900 options issued and outstanding. In total, 19,696,383 common shares are reserved for issuance pursuant to outstanding warrants.

Shareholder Rights Plan

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

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.

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.

Internal Control over Financial Reporting

Management has designed internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for the external purposes in accordance with Canadian GAAP.

Because of the inherent limitations in a control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements.

No changes were made in the Company’s internal control over financial reporting during the four-month period ended December 31, 2007 and the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Disclosure Controls and Procedures

Management has designed disclosure controls and procedures to provide reasonable assurance that all relevant information relative to the Company and its consolidated subsidiaries is gathered and reported to senior management, including the Chief Executive Officer and Acting Chief Financial Officer, on a timely basis so that the appropriate decisions can be made regarding public disclosure.

The Chief Executive Officer and Acting Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by Multilateral Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings” issued by the Canadian Securities Administrators. They concluded that as at December 31, 2007, the Company’s

disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.

Consolidated Financial Statements

Intrinsyc Software International, Inc.

December 31, 2007

MANAGEMENT'S RESPONSIBILITY

The management of Intrinsic Software International, Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial reports are properly maintained to provide accurate reliable financial statements.

The Company's audit committee is comprised entirely of independent directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review the consolidated financial statements and the independent auditor's report. The audit committee has approved the consolidated financial statements and reported its findings to the Board of Directors.

The Company's independent auditors, Ernst & Young LLP, have examined the consolidated financial statements and their report follows.



Glenda Dorchak
Chief Executive Officer
March 20, 2008



David Fischer
Acting Chief Financial Officer
March 20, 2008

AUDITORS' REPORT

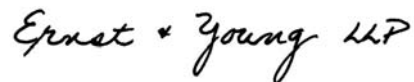
To the Shareholders of
Intrinsic Software International, Inc.

We have audited the consolidated balance sheets of **Intrinsic Software International, Inc.** as at December 31, 2007 and August 31, 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the four-month period ended December 31, 2007 and the year ended August 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and August 31, 2007 and the results of its operations and its cash flows for the four-month period ended December 31, 2007 and the year ended August 31, 2007 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
February 27, 2008.



Chartered Accountants

Intrinsyc Software International, Inc.

CONSOLIDATED BALANCE SHEETS

As at	December 31 2007 \$	August 31 2007 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	12,047,582	19,629,335
Accounts receivable <i>[notes 4 and 17]</i>	3,563,763	3,080,974
Inventory	102,906	15,872
Prepaid expenses - current	693,147	540,605
Total current assets	16,407,398	23,266,786
Prepaid expenses	275,159	156,627
Equipment <i>[notes 5 and 17]</i>	1,398,357	1,479,407
Goodwill <i>[note 6[a]]</i>	14,189,478	14,189,478
Intangible assets <i>[note 6[b]]</i>	135,680	240,790
Total assets	32,406,072	39,333,088
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,339,268	3,563,078
Taxes payable	244,095	422,840
Capital lease obligation <i>[note 13]</i>	15,746	15,396
Deferred revenue	1,164,341	702,949
Total current liabilities	4,763,450	4,704,263
Long-term capital lease obligation <i>[note 13]</i>	27,203	32,570
Future income taxes <i>[note 11]</i>	110,193	151,816
Total liabilities	4,900,846	4,888,649
Commitments and contingencies <i>[notes 12, 13 and 14]</i>		
Shareholders' equity		
Share capital <i>[note 9]</i>	94,244,492	94,089,090
Warrants and underwriters' options <i>[notes 8 and 9]</i>	5,705,360	5,736,316
Contributed surplus <i>[note 10]</i>	3,814,314	3,584,107
Accumulated other comprehensive loss	(27,792)	(27,792)
Deficit	(76,231,148)	(68,937,282)
Total shareholders' equity	27,505,226	34,444,439
Total liabilities and shareholders' equity	32,406,072	39,333,088

See accompanying notes to consolidated financial statements

On behalf of the Board:



Director



Director

Intrinsyc Software International, Inc.

**CONSOLIDATED STATEMENTS OF
OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

For the	Four months ended December 31 2007 \$	Year ended August 31 2007 \$
Revenues <i>[note 17]</i>	5,221,454	19,705,794
Cost of sales	3,319,359	10,033,615
	1,902,095	9,672,179
Expenses		
Administration	2,162,415	5,219,400
Marketing and sales	2,362,294	6,590,745
Research and development	3,346,219	12,025,934
Amortization	283,814	821,282
Stock-based compensation <i>[note 10]</i>	230,377	668,618
Technology Partnerships Canada Funding Investment <i>[note 12]</i>	--	291,175
	8,385,119	25,617,154
Loss before other expense (earnings) and income taxes	6,483,024	15,944,975
Other expense (earnings)		
Foreign exchange loss <i>[note 16]</i>	288,675	125,911
Loss on disposal of equipment	--	2,599
Interest income	(194,549)	(532,603)
Restructuring <i>[note 18]</i>	658,996	--
Accretion and amortization – long-term debt <i>[note 8]</i>	--	927,778
Interest expense – long-term debt <i>[note 8]</i>	--	213,699
	753,122	737,384
Loss before income taxes	7,236,146	16,682,359
Income tax expense (recovery) <i>[note 11]</i>		
Current	94,528	392,014
Future	(36,808)	(76,051)
	57,720	315,963
Loss and comprehensive loss for the period	7,293,866	16,998,322
Deficit, beginning of period	68,937,282	51,938,960
Deficit, end of period	76,231,148	68,937,282
Loss per share (basic and diluted)	0.06	0.18
Weighted average number of shares outstanding	119,534,505	94,181,525

See accompanying notes to consolidated financial statements

Intrinsyc Software International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the	Four months ended December 31 2007 \$	Year ended August 31 2007 \$
OPERATING ACTIVITIES		
Loss for the period	(7,293,866)	(16,998,322)
Items not involving cash:		
Amortization	283,814	821,282
Future income taxes	(41,623)	(77,839)
Loss on disposal of equipment due to restructuring <i>[note 18]</i>	66,020	--
Stock-based compensation <i>[note 10]</i>	230,377	668,618
Accretion and amortization – long term debt <i>[note 8]</i>	--	222,322
Accretion and amortization realized on early redemption of debentures <i>[note 8]</i>	--	705,456
Changes in non-cash operating working capital:		
Income taxes payable	(178,745)	203,928
Accounts receivable	(482,789)	708,769
Inventory	(87,034)	95,124
Prepaid expenses	(271,074)	(249,647)
Accounts payable and accrued liabilities	(223,810)	(447,465)
Deferred revenue	461,392	160,434
Cash used in operating activities	(7,537,338)	(14,187,340)
INVESTING ACTIVITIES		
Proceeds from sale of equipment	3,077	--
Purchase of equipment	(166,751)	(575,046)
Cash used in investing activities	(163,674)	(575,046)
FINANCING ACTIVITIES		
Issuance of common shares and warrants <i>[note 9]</i>	124,276	21,864,907
Share issuance costs <i>[note 9]</i>	--	(1,929,623)
Repayment of capital lease obligation <i>[note 13]</i>	(5,017)	(1,514)
Debentures <i>[note 8]</i>	--	(8,000,000)
Debentures issuance costs <i>[note 8]</i>	--	(29,125)
Cash provided by financing activities	119,259	11,904,645
Decrease in cash and cash equivalents	(7,581,753)	(2,857,741)
Cash and cash equivalents, beginning of period	19,629,335	22,487,076
Cash and cash equivalents, end of period	12,047,582	19,629,335
Supplementary information		
Interest paid	7,122	214,893
Interest received	205,427	551,840
Income taxes paid	252,806	211,076

See accompanying notes to consolidated financial statements

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

1. ORGANIZATION

The Company was incorporated on August 31, 1992 under the laws of Alberta and continued under the Company Act (British Columbia) on July 19, 1995. Articles of Continuance were filed under the Canada Business Corporations Act on May 1, 2003 to continue the Company federally and change the name of the Company from Intrinsyc Software, Inc. to Intrinsyc Software International, Inc. The Company is a mobile software and services company that specializes in providing smart phone and feature phone software licensing and supporting systems integration services to handset manufacturers and their partners. The Company's technologies and services make it possible for customers to identify, create and deliver mobile devices and solutions.

In 2007, the Company changed its fiscal year from August 31 to December 31. All information reported for the period ended December 31, 2007 is for the four-month period then ended, and comparative information is for the twelve-month period ended August 31, 2007. This change will better align the Company's business cycle with that of its customers, as well as the majority of public companies in the Company's business sector, thereby allowing investors to better assess the Company's performance in relation to its peers.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are presented in Canadian dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles.

Changes in accounting policies

The Company retroactively without restatement adopted the following new Handbook sections issued by the Canadian Institute of Chartered Accountants ("CICA") which were effective for fiscal years beginning on or after October 1, 2006:

a) Section 3855, "Financial Instruments – Recognition and Measurement", describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under the new standards, the Company is now required to classify: (i) its financial assets as held-to-maturity, available-for-sale, held-for-trading, or loans and receivables; and (ii) its financial liabilities as either held-for-trading, or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair value with the exception of held-to-maturity investments, loans and receivables, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the consolidated balance sheet

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

The Company has made the following classifications:

- Cash and cash equivalents are classified as held for trading and are measured at fair value. This category best describes the Company's current management practices with regards to cash and cash equivalents.
- Accounts receivable are classified as loans and receivables and recorded at amortized cost.
- Accounts payable and accrued liabilities are classified as other liabilities and measured at amortized cost using the effective interest rate method.

Under the new standards, a derivative is a financial instrument or other contract whose value changes in response to the change in a specified rate, price or index that requires nominal or no initial investment and which is settled at a future date. Derivative financial instruments are utilized by the Company in the management of its foreign currency risk 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 net earnings each period. For the four months ended December 31, 2007, the Company did not utilize any derivative financial instruments and did not engage in any hedging transactions.

Section 3855 also requires that the Company identify embedded derivatives that require separation from the related host contract and measure any embedded derivatives at fair value.

From time to time, the Company enters into certain contracts for the purchase or sale of non-financial items that are denominated in currencies other than the Canadian dollar. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in either the functional currency of the Company or the counter-party, the embedded foreign currency derivative is considered to be closely related to the host contract and is not accounted for separately.

If the contract is neither denominated in the functional currency of the Company or the associated counter-party, the embedded foreign currency derivative is separated from the host contract unless the non-financial item delivered requires

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

payments denominated in the currency that is routinely accepted in commercial transactions around the world, or is commonly used for such transactions in the economic environment in which the transaction takes place. The Company did not separate any embedded foreign currency derivatives from their related host contracts during the four month transition period ended December 31, 2007.

The change in accounting policy related to embedded derivatives did not result in any changes to the August 31, 2007 consolidated financial statements.

b) Section 3861, "Financial Instruments – Disclosure and Presentation", establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

c) Section 1530, "Comprehensive Income", describes the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale financial instruments. This section describes how to report and disclose comprehensive income and its components. For the four months ended December 31, 2007 and the year ended August 31, 2007, the Company does not have any items that should be presented in other comprehensive income therefore, net loss for the period is equivalent to comprehensive loss for the period.

d) Section 3251, "Equity", replaces section 3250, "Surplus", and establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income". As a result of the adoption of this section, the consolidated financial statements now include a statement of comprehensive loss and deficit. The adoption of this standard resulted in the reclassification of an amount of (\$27,792) previously recorded in "Cumulative translation adjustment" to "Accumulated other comprehensive loss".

e) Section 3865, "Hedges", describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The Company does not have any hedging items.

f) Section 1506, "Accounting Changes", allows for voluntary changes in accounting policy only if they provide more reliable and relevant information in the financial statements,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

requires changes in accounting policy to be applied retroactively unless doing so is impractical, requires prior period errors to be corrected retroactively and requires enhanced disclosures about the effects of the changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's financial condition and results of operations will depend on the nature of future accounting changes. The adoption of Section 1506 effective September 1, 2007 had no impact on the Company's consolidated financial statements. Effective September 1, 2007, the Company adopted Section 1651, "Foreign Currency Translation". There was no impact on the Company's consolidated financial statements from the adoption of this new standard.

Principles of consolidation

The accompanying 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 inter-company balances and transactions. These consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. Actual results could differ from those estimates used in the preparation of the financial statements.

Cash equivalents

Cash equivalents include short-term deposits, which are all deposits rated R1, term deposits, savings investment deposits, guaranteed investment certificate deposits or banker's acceptances, with a term to maturity of three months or less when acquired and are carried at fair value.

Inventory

Inventory is valued at the lower of cost and estimated net realizable value with cost being determined on a first-in-first-out basis.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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.

Research and development

Research costs are expensed in the year incurred. Development costs are expensed in the year incurred unless the Company believes a development project meets generally accepted accounting criteria for deferral and amortization.

Equipment

Equipment is initially recorded at cost. Amortization is subsequently provided on the following basis:

Computers and equipment	30% declining-balance
Computer software	3 years straight-line
Furniture and fixtures	20% declining-balance

Leasehold improvements are amortized on a straight-line basis over the shorter of the initial lease term or their expected useful lives. Furniture and fixtures include such items under capital lease.

Leases

Leases are classified as either capital or operating. Those leases, which transfer substantially all the benefits and risks of ownership of the property to the Company are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate interest rate.

All other leases are accounted for as operating leases wherein rental payments are charged to expense as incurred.

Intellectual property and other intangible assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

Intellectual property is recorded at cost. Intellectual property related to software is amortized on a straight-line basis over six years.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired less the liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is annually tested for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps.

The first step is to compare the carrying amount of the reporting unit to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. Management has completed the first step of the goodwill impairment test as of December 31, 2007 and August 31, 2007.

The second step has not been required, but would be carried out if the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit's goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the first paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations before extraordinary items and discontinued operations.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Revenue recognition

Service revenues consist of revenues from software modification, consulting, implementation, training and integration services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services. For those contracts where the services are not essential to the functionality of any other element of the transaction, the Company determines vendor-specific objective evidence ("VSOE") of fair value for these services based upon normal pricing and discounting practices for these services when sold separately. These services contracts are primarily time and material based contracts. Revenue from these services is recognized at the time such services are rendered by the Company so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

The Company also enters into contracts that are primarily fixed fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems, because these services are essential to the functionality of other elements in the arrangement. Under this method, revenue is recognized using the percentage of completion basis and is calculated based on actual hours incurred compared to the estimated total hours for the services under the arrangement, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer.

The Company recognizes revenue from the sale of software licenses upon the transfer of title to the customer, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. The Company uses the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based on VSOE of the fair value of the undelivered element. If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or as elements are delivered.

The Company's multiple-element sales arrangements include arrangements where software licenses and the associated post contract customer support ("PCS") are sold together. Where possible the Company has established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple-element sales arrangement, as substantiated by contractual terms. The Company's multiple-element sales arrangements generally include rights for the customer

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

to renew PCS after the bundled term ends. These rights are irrevocable to the customer's benefit, are for specified prices, are consistent with the initial price in the original multiple-element sales arrangement, and the customer is not subject to any economic or other penalty for failure to renew. Further, the renewal PCS options are for services comparable to the bundled PCS and cover similar terms.

In instances where the Company cannot establish VSOE for the individual elements of a multiple element arrangement, the revenue relating to all elements of the arrangement is deferred until all elements are delivered, unless the only undelivered element is PCS in which case the deferred amounts are recognized rateably over the PCS period.

PCS revenue associated with software licenses is recognized rateably over the term of the PCS period, which typically is one year. PCS revenue includes software license updates that provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the PCS period.

The Company recognizes revenue from the sales of hardware products upon the later of transfer of title or upon shipment of the hardware product to the customer so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

Unbilled revenue

Unbilled revenue is revenue that has been recognized using the percentage of completion method of accounting less amounts billed to the customer in accordance with the milestone terms of the contract. Unbilled revenue is reduced when customers are invoiced and the respective accounts receivable are recorded.

Warranty costs

The Company accrues warranty costs based on management's best estimate, with reference to past experience.

Share issue costs

The Company reduces the value of consideration assigned to shares issued by the costs of issuing the shares, net of income tax recoveries.

Impairment of equipment

The Company monitors the recoverability of equipment, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

from the use of the related assets. The Company's policy is to record an impairment loss in the period when the Company determines that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to the undiscounted future cash flows. As at December 31, 2007, the Company has not recorded any such impairment losses, except as outlined in note 18 - Restructuring.

Translation of foreign currencies

Foreign operations that are considered integrated (financially and operationally dependent on the parent) are translated to Canadian dollars using current rates of exchange for monetary assets and liabilities. Historical rates of exchange are used for non-monetary assets and liabilities and average rates for the period are used for revenues and expenses except for amortization, which is translated at exchange rates used in the translation of the related asset accounts. Gains or losses resulting from these translation adjustments are included in income.

Foreign operations that are considered self-sustaining (financially and operationally independent of the parent) are translated to Canadian dollars using the current rates of exchange for assets and liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are included in the accumulated other comprehensive loss in shareholder's equity.

Transactions completed in foreign currencies are recorded in Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are recorded in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Loss per share

The loss per share is calculated by using the weighted average number of common shares outstanding during the period. If in a reporting period the Company has outstanding dilutive equity instruments, the diluted loss per share is calculated using the treasury stock method. Diluted per share amounts have not been disclosed as the effect of outstanding options and warrants is anti-dilutive for all periods presented.

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

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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.

3. OPERATING LINE OF CREDIT

The Company established an operating line of credit for borrowings up to \$5,000,000 during the year ended August 31, 2007, bearing interest at prime rate plus 0.5%. Prime rate was 6.0% at December 31, 2007 [August 31, 2007 - 6.25%]. The line is collateralized by eligible receivables and a general security agreement over all assets of the Company. There was no borrowing outstanding against the operating line of credit as at December 31, 2007 and August 31, 2007.

4. ACCOUNTS RECEIVABLE

	December 31 2007 \$	August 31 2007 \$
Trade and miscellaneous receivables	3,545,743	3,018,599
Unbilled revenue	18,020	62,375
	3,563,763	3,080,974

5. EQUIPMENT

	Cost \$	Accumulated amortization \$	Net book value \$
December 31, 2007			
Computers and equipment	2,325,754	1,571,602	754,152
Computer software	1,059,170	916,754	142,416
Furniture and fixtures	599,204	480,920	118,284
Furniture and fixtures under capital lease	49,480	4,948	44,532
Leasehold improvements	771,232	432,259	338,973
	4,804,840	3,406,483	1,398,357

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

5. EQUIPMENT (cont'd.)

	Cost \$	Accumulated amortization \$	Net book value \$
August 31, 2007			
Computers and equipment	2,298,748	1,566,853	731,895
Computer software	1,112,012	938,991	173,021
Furniture and fixtures	742,097	586,588	155,509
Furniture and fixtures under capital lease	49,480	--	49,480
Leasehold improvements	821,187	451,685	369,502
	<u>5,023,524</u>	<u>3,544,117</u>	<u>1,479,407</u>

The aggregate amortization expense related to equipment for the four months ended December 31, 2007 was \$178,704 [year ended August 31, 2007 - \$505,952].

During the four-month period ended December 31, 2007, the Company disposed of assets with a cost base of \$382,571 and recorded a loss of \$66,020 in connection with the wind down of its European operation. See note 18 – Restructuring.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

[a] There were no changes to the goodwill balance during the four months ended December 31, 2007 and year ended August 31, 2007.

[b] Other intangible assets as at December 31, 2007 and August 31, 2007 were as follows:

	Gross carrying amount \$	Accumulated amortization \$	Total \$
December 31, 2007			
Intellectual property	3,336,679	3,200,999	135,680
Other intangible assets	274,080	274,080	--
	<u>3,610,759</u>	<u>3,475,079</u>	<u>135,680</u>
August 31, 2007			
Intellectual property	3,336,679	3,095,889	240,790
Other intangible assets	274,080	274,080	--
	<u>3,610,759</u>	<u>3,369,969</u>	<u>240,790</u>

The aggregate amortization expense related to intangible assets for the four months ended December 31, 2007 was \$105,110 [year ended August 31, 2007 - \$315,330].

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

7. EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS

	December 31 2007 \$	August 31 2007 \$
Benefit costs	214,916	677,795

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

8. DEBENTURES

On October 3, 2005, the Company closed an \$8.0 million debenture financing (the "Debenture Financing") with Wellington Financial Fund II ("Wellington Financial"). The financing was by way of secured Debentures (the "Debentures") maturing on October 3, 2007. Concurrent with the financing, the Company 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 was 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 accreted as the Debentures were paid in full on that date. For the four months ended December 31, 2007, the Company did not incur any accretion expense [year ended August 31, 2007 – \$382,054].

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 the 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 four months ended December 31, 2007, the Company did not

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

8. DEBENTURES (cont'd.)

incur any amortization expense related to deferred financing costs [year ended August 31, 2007 – \$545,724].

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

	December 31 2007 \$	August 31 2007 \$
Non-cash accretion of debentures from carrying value to face value	--	73,982
Non-cash accretion realized due to early payment of debentures	--	308,072
Non-cash amortization of debt financing charges	--	119,215
Non-cash amortization realized due to early payment of debentures	--	397,384
Additional legal, professional and transaction fees	--	29,125
Total accretion and amortization	--	927,778
Cash interest expense	--	213,699
	--	1,141,477

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

9. 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 stock options exercised	64,167	33,367
Transfer from contributed surplus of issue date fair value for options exercised <i>[note 10]</i>	--	36,386
Shares issued in connection with public offering	36,385,900	19,395,598
Outstanding, August 31, 2007	119,493,436	94,089,090
Shares issued for cash in connection with stock options exercised	550	276
Non-cash transfer from contributed surplus of issue date fair value for options exercised <i>[note 10]</i>	--	170
Shares issued for cash in connection with warrants exercised	200,000	124,000
Non-cash transfer from warrants and underwriters' options at issue date fair value for warrants exercised	--	30,956
Outstanding, December 31, 2007	119,693,986	94,244,492

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 had 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 at \$0.60 per common share with \$154,619 of cash underwriters' fees and expenses resulting in net cash proceeds of \$1,676,521. 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.

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

9. SHARE CAPITAL (cont'd.)

This amount has been classified as warrants and underwriters' options in the share capital section of the consolidated 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 underwriters' options were valued at \$56,468. This amount has been classified as warrants and underwriters' options in the share capital section of the consolidated balance sheet.

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

Share option plan

The Company has a rolling incentive stock option plan. Under the terms of the Company's stock option plan, the Board of Directors may grant options to directors, officers, employees and service providers equal to the lower of: (i) up to 10% of issued and outstanding common shares of the Company from time to time; and, and (ii) 30,000,000 shares. The plan provides for the granting of options at the closing price of the Company's stock prior to the grant date. Options granted generally vest over three years with the first one-third 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.

A summary of the Company's share option activity for the four months ended December 31, 2007 and year ended August 31, 2007 is as follows:

	Outstanding options	
	Number	Weighted average
	of common shares	exercise price
		\$
Outstanding, August 31, 2006	6,374,413	0.97
Options granted	2,716,030	0.58
Options exercised	(64,167)	0.52
Options cancelled/expired	(1,322,351)	0.82
Outstanding, August 31, 2007	7,703,925	0.79
Options granted	2,408,250	0.89
Options exercised	(550)	0.50
Options cancelled/expired	(434,125)	0.95
Outstanding, December 31, 2007	9,677,500	0.81

Intrinsyc Software International, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

9. SHARE CAPITAL (cont'd.)

The following table summarizes the share options outstanding as at December 31, 2007:

Options outstanding				Options exercisable	
Range of exercise price \$	Number of shares	Weighted average remaining contractual life	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
0.39 - 0.74	3,612,640	3.40	0.56	1,637,113	0.53
0.75 - 0.90	2,383,915	3.52	0.83	1,112,448	0.83
0.91 - 1.32	3,680,945	3.40	1.03	3,438,339	1.02
	9,677,500	3.43	0.81	6,187,900	0.86

Warrants & underwriters' options

A summary of the Company's share purchase warrants and underwriters' options for the four months ended December 31, 2007 and year ended August 31, 2007 is as follows:

	Number of warrants and underwriters' options	Outstanding warrants and underwriters' options	
		Weighted average exercise price \$	Amount \$
Outstanding, August 31, 2006	19,680,845	0.95	5,229,997
Underwriters' compensation warrants <i>[note 9]</i>	1,819,295	0.60	506,319
Outstanding, August 31, 2007	21,500,140	0.92	5,736,316
Warrants exercised	(200,000)	0.62	(30,956)
Outstanding, December 31, 2007	21,300,140	0.93	5,705,360

Intrinsyc Software International, Inc.

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9. SHARE CAPITAL (cont'd.)

The following table provides the details of the Company's outstanding warrants and underwriters' options by type and date of issuance:

	Number of options	Exercise price \$	Expiry date
Warrants issued October 3, 2005	3,670,968	0.62	October 3, 2010
Warrants issued March 30, 2006	13,398,201	1.05	March 29, 2010
Compensation options issued March 30, 2006	1,607,784	0.90	March 29, 2008
Compensation warrants issued March 30, 2006	803,892	1.05	March 29, 2010
Compensation options issued May 10, 2007	1,666,700	0.60	May 9, 2009
Compensation options issued June 7, 2007	152,595	0.60	June 6, 2009
Outstanding, December 31, 2007	21,300,140		

The weighted average fair value of stock options granted during the four months ended December 31, 2007 was \$0.62 per share [year ended August 31, 2007 - \$0.32]. The fair value of each option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Four months ended December 31 2007	Year ended August 31 2007
Expected life (in years)	4.0	4.0
Risk-free interest rate	4.0%	4.5%
Volatility	86.8%	85.4%
Dividend yield	0.0%	0.0%

10. CONTRIBUTED SURPLUS

	December 31 2007 \$	August 31 2007 \$
Contributed surplus – beginning of year	3,584,107	2,951,875
Transfer to common share capital of issue date fair value for options exercised [note 9]	(170)	(36,386)
Stock-based compensation expense	230,377	668,618
Contributed surplus – end of year	3,814,314	3,584,107

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11. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 34.1% [August 31, 2007 - 34.1%] to loss before income taxes due to the following:

	December 31 2007 \$	August 31 2007 \$
Combined Canadian federal and provincial income taxes at expected rate	(2,468,973)	(5,688,684)
Change in valuation allowance	(464,749)	1,137,744
Permanent and other differences	354,398	982,563
Foreign income taxed at other rates	1,192,634	3,724,740
Costs of issuing equity	--	(598,183)
Non-capital losses expired	319,639	686,030
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	1,124,771	71,753
	57,720	315,963

The composition of the Company's future tax assets and liabilities as at December 31, 2007 and August 31, 2007 is as follows:

	December 31 2007 \$	August 31 2007 \$
Future income tax assets:		
Equipment	1,092,000	1,143,000
Loss carry forwards	6,724,000	6,882,000
Share issue costs	648,000	832,000
SR&ED pool	1,497,000	1,553,000
Other	636,000	651,000
	10,597,000	11,061,000
Valuation allowance	(10,597,000)	(11,061,000)
Future income tax liability:		
Equipment	(73,559)	(77,476)
Intellectual property	(36,634)	(74,340)
Net future income tax liability	110,193	151,816

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11. INCOME TAXES (cont'd.)

The future income tax assets have not been recognized in these consolidated financial statements, as management does not consider it more likely than not that such assets will be realized in the carry forward period.

As at December 31, 2007, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately \$20,336,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

	\$
2008	3,683,000
2009	5,756,000
2013	1,114,000
2025	4,003,000
2026	4,039,000
2027	1,741,000
	<u>20,336,000</u>

The Company also has approximately \$5,546,000 of scientific research and experimental development expenditures that may be carried forward indefinitely to be deducted against future Canadian taxable income, and federal investment tax credits of approximately \$2,154,000 available to offset future Canadian federal income taxes payable as well as provincial investment tax credits of \$1,195,000. The investment tax credits expire commencing in 2010 until 2017. The benefit of the investment tax credits has not been recognized as the realization is not reasonably assured.

At December 31, 2007, the Company also has non-capital loss carry forwards for UK income tax purposes totalling approximately \$2,922,000 that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years.

The Company estimates that it has non-capital loss carry forwards in Barbados of approximately \$23,628,000 that may be carried forward to reduce future taxable income. These losses are expected to begin expiring in 2014.

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12. 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 \$782,357 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 January 18, 2008. See note 14[b] – Commitments and Contingencies.

13. CAPITAL LEASE OBLIGATIONS

The Company is committed to the following obligations under capital leases:

	December 31 2007 \$	August 31 2007 \$
Minimum lease payments	46,923	52,977
Interest at 6.75%	<u>(3,974)</u>	<u>(5,011)</u>
Lease principal obligation	42,949	47,966
Current portion	<u>(15,746)</u>	<u>(15,396)</u>
	27,203	32,570

Future minimum lease repayments required over the term of the leases are as follows:

	\$
2008	18,163
2009	18,163
2010	10,597
	<u>46,923</u>

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14. COMMITMENTS AND CONTINGENCIES

- [a] The Company has lease commitments for office premises and equipment with remaining terms of up to five years. In addition, the Company has a commitment to pay a royalty of \$15 USD per \$100 USD of licenses sold of certain software. 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. As at December 31, 2007, the Company has accrued the remaining balance owing as management has determined that future sales under this agreement are unlikely. The aggregate of royalty and minimum lease payments in each of the next five years are approximately as follows:

	\$
2008	1,446,010
2009	1,274,775
2010	1,072,282
2011	492,596
2012	206,795
	<u>4,492,458</u>

- [b] The Company has received correspondence from the Industrial Technology Office (“ITO” formerly “TPC”) dated January 18, 2008 indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed resulting in a request for repayment of approximately \$929,183 in addition to the already recorded \$22,063 (see note 12 – Government Assistance).

The Company has evaluated the correspondence and the contribution agreement, and has engaged in a dialogue with the ITO in order to arrive at a final determination of eligibility of these costs under the program. The original agreement provides for alternative dispute resolution processes to resolve disputes relating to the agreement, which may be pursued in the event that the parties are unable to reach agreement on eligibility of these costs. At this time, the Company is unable to assess the likelihood of 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 the period of the determination that the amount is owed.

- [c] The Company warrants that its software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally ninety days. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and capital lease obligations. The carrying values of current assets and current liabilities approximate their fair values due to their short maturities. The carrying value of the capital lease obligation approximates fair value based on current interest rates.

Credit and foreign currency risk

The Company maintains substantially all of its cash and cash equivalents with major financial institutions in Canada. Deposits held with banks may exceed the amount of insurance provided on such deposits. However, as the Company can generally redeem these deposits upon demand, the Company bears minimal risk.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. Management is of the opinion that any risk of accounting loss is significantly reduced due to the financial strength of the Company's major customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

Although substantially all of the Company's revenues are received in US dollars, the Company incurs operating costs and has outstanding indebtedness that is denominated in Canadian dollars. The Company incurs certain research and development expenses in the United States. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company attempts to mitigate this risk by denominating many of its payment obligations in US dollars.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 & August 31, 2007

16. DERIVATIVE FINANCIAL INSTRUMENTS/FOREIGN EXCHANGE CONTRACTS

The Company enters into transactions denominated in US dollars and British pounds. As such its revenues, expenses, monetary assets and liabilities will be affected by fluctuations in the US dollar and the British pound relative to its functional currency, the Canadian dollar.

The Company may purchase foreign exchange forward contracts to hedge sales to customers and expenditures expected to occur in the near future denominated in US dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at December 31, 2007, the Company had no foreign exchange contracts. Additionally, during the four months ended December 31, 2007 and the fiscal year ended August 31, 2007, the Company did not enter into any foreign exchange contracts.

17. SEGMENTED INFORMATION

Operating segments

The Company operates in the sale and service of embedded hardware and software solutions and all sales of the Company's products and services are made in this segment. Management makes decisions about allocating resources based on the one operating segment.

Geographic information

Substantially all of the Company's goodwill is located in Canada. The Company's equipment is located as follows:

	December 31	August 31
	2007	2007
	\$	\$
United States	421,123	450,387
Canada	858,183	842,961
Asia	115,756	100,373
Europe	3,295	85,686
	1,398,357	1,479,407

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17. SEGMENTED INFORMATION (cont'd.)

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

	Four months ended December 31 2007 \$	Year ended August 31 2007 \$
United States	2,000,382	11,126,766
Canada	87,823	1,158,682
Europe	2,776,896	7,215,134
Other	356,353	205,212
	5,221,454	19,705,794

The Company earned revenue from the following sources:

	Four months ended December 31 2007 \$	Year ended August 31 2007 \$
Hardware	617,270	921,812
Software	549,212	1,984,084
Services	4,054,972	16,799,898
	5,221,454	19,705,794

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17. SEGMENTED INFORMATION (cont'd.)

Significant customers

One customer accounted for more than 10% of sales for the four months ended December 31, 2007. Two customers accounted for more than 10% of sales for the year ended August 31, 2007.

	% of sales		% of accounts receivable	
	Four months ended December 31 2007	Year ended August 31 2007	Four months ended December 31 2007	Year ended August 31 2007
Customer 1	45%	26%	39%	44%
Customer 2	5%	24%	7%	16%
	50%	50%	46%	60%

18. RESTRUCTURING

On November 7, 2007, the Company announced it had entered into a consultation period for its engineering operations in the United Kingdom, as required under UK law, whereby the Company would propose to close the operation before the end of 2007. The consultation period was completed during the four months ended December 31, 2007. As at December 31, 2007, the Company is in the process of winding up these operations.

The following table summarizes the expenses recorded by the Company and the remaining liabilities as at December 31, 2007.

	Expensed \$	Settled \$	Outstanding December 31 2007 \$
Employee related costs	473,840	203,801	270,039
Loss on disposal of equipment	66,020	66,020	--
Office related costs	74,833	66,993	7,840
Other costs	44,303	18,437	25,866
Totals	658,996	355,251	303,745

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19. SUBSEQUENT EVENT

On February 7, 2008, the Company announced that it had entered into an agreement with a group of underwriters in connection with a public offering of common shares. The offering closed on February 27, 2008 and a total of 28,600,000 shares were sold at an offering price of \$1.05 per share for gross proceeds of approximately \$30,030,000 with net proceeds of approximately \$27,758,200 after deducting underwriters' fees and estimated expenses.

In addition, the underwriters were granted an underwriters' over-allotment option to increase the offer by up to 4,290,000 shares for a period of 30 business days following the closing of the financing.

20. COMPARATIVE FIGURES

The Company has reclassified certain of the figures presented for comparative purposes to conform to the consolidated financial statement presentation adopted in the current period.

21. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED

The following is an overview of accounting standard changes that the Company will be required to adopt in future periods:

Capital disclosures and financial instruments – presentation and disclosure

The CICA issued three new accounting standards: Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". These new standards are effective for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008. The Company is in the process of evaluating the disclosure and presentation requirements of the new standards.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements, and carrying

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21. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET ADOPTED (cont'd.)

forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued Section 3031, "Inventories", which will replace Section 3030, "Inventories". This new standard is effective for fiscal years beginning on or after January 1, 2008. The Company will adopt this section effective January 1, 2008. Under the requirements of the new standard, inventories will be measured at the lower of cost and net realizable value, cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects will be assigned by using a specific identification of their individual costs, consistent use of either first-in, first out or weighted average cost is prescribed for other inventories, and the reversal of previous write-downs to net realizable value occurs when there is a subsequent increase in the value of the inventories. The Company has not yet determined what the impact of adopting this standard will have on its consolidated financial statements.

Going concern

Effective January 1, 2008, the Company will be required to adopt the additional requirements of the CICA Handbook Section 1400, "General Standards of Financial Statements". The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company does not anticipate any impact to its consolidated financial statements arising from this accounting pronouncement.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and other Intangible Assets" and Section 3450, "Research and Development Costs". The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

The Company will be evaluating the impact of these standards.