Intrinsyc Software International Inc.

(ICS-T $1.18)

Cellphone Rocket Science

Financial Summary (all figures in C$ unless otherwise noted)

(end-Aug)	Revenue ($m)	Price/Revenue (x)	EPS ($)	P/E (x)
FY07	19.7	9.1	($0.18)	NA
FY08e	20.3	8.9	($0.10)	NA
FY09e	34.5	5.2	($0.04)	NA
FY10e	55.0	3.3	$0.05	23.8

- ICS offers significant growth potential through its new cellphone operating system software, Soleus.
- ICS has six design wins for Soleus so far, generating its first revenues in early 2008 and could announce further design wins at the 3GSM tradeshow February 11-13th 2008.
- ICS has an impressive new management team lead by Glenda Dorchak and Mark Johnson, two former Intel executives.

Company Background

Based in Vancouver, Intrinsyc was founded in 1992 and is a provider of software and engineering services for mobile phone manufacturers. ICS runs a solid engineering services business for cellphone design (~$15m per year) and in 2004 leveraged that expertise into the development of a new software product branded as Soleus. Soleus is a turnkey operating system, designed to run on mobile phones, with an addressable market of 150-500m units per year (at ~$3 per unit). Microsoft is helping ICS with joint marketing efforts and other development support. A new world class management team was appointed at Intrinsyc in 2006 and they completed Soleus in December 2006, with six design wins for Soleus over the last year.

Catalysts and Risks

The main catalysts for Intrinsyc's stock include new cellphone design wins, new product launches, licensing agreements, rapid revenue growth and a turn to profitability. The main risks for Intrinsyc include competition, alternative technologies, managing growth, customer concentration and reliance on Windows CE.

Valuation and Recommendation

We acknowledge that Intrinsyc is still early in its commercialization but we believe the stock will trade higher with each successive new design win. The stock has traded in a narrow range of $0.50 to $1.50 over the last five years, but seems poised to break out of that range. Overall we believe Intrinsyc is an exciting company which could trade up as high as 5.0x 2010 blended sales over the next 12 months. Consequently, we initiate coverage of Intrinsyc with a $2.00 target price and a BUY rating.

Stock Rating:

Buy

12-month target	2.00
Potential ROR	69%

Company Profile

Sector	Wireless
Ticker	ICS-T
Shares O/S (m)	152.5
Free Float (m)	151.7
Mkt cap ($m)	180
Mkt float ($m)	179
Free float (%)	99.3%
Next event	Q1 Results
	March 2008

Key Metrics

Cash/sh ($)	0.16
Book Value/sh ($)	0.29
Debt ($)	nil

Analyst

Barry Richards

(416) 364-4835

brichards@paradigmcapinc.com

Sales

Toronto	(866) 361-1064
Calgary	(877) 513-1025

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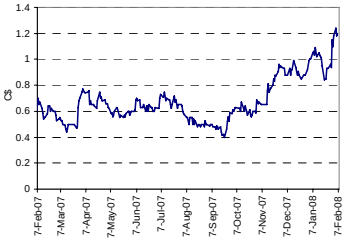
Intrinsyc's 1-Year stock price chart



Source: Bloomberg

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Investment Thesis

2008 is set to be a big breakthrough year for Intrinsyc. The company has been flying below the radar screen for most of its 10 years as a public Company, but that is all about to change. The company has built a long term reputation as a consultant to the world's biggest cellphone makers. Intrinsyc is now putting that experience to good use, introducing its own new cellphone operating system.

Intrinsyc plays in the complex and obscure world of "embedded systems". The term typically refers to the "chip level" software or hardware used in special purpose computer systems like cellphones, photocopiers, PDA's, calculators and countless other electronic devices. The cellphone market remains attractive with over 1 billion units shipped in both 2006 and 2007 and continues to evolve from voice calls to the much more profitable data traffic. Legacy embedded systems known as real time operating systems or RTOS are incapable of dealing with data and are being replaced with new higher level operating systems (like Intrinsyc's Soleus). These new systems offer amazing graphics and a wide range of software applications comparable to what one might find in a computer. Soleus is "cellphone rocket science" allowing the phone to perform its most basic functions, while also offering design tools to personalize the look and feel of the phone. Apple's new iPhone, with its touch screen interface, is a great example of this trend to the high level operating systems and is stimulating significant interest in Soleus.

The battle of competing operating systems is in full swing, but Intrinsyc did well to pick its source code partner. Intrinsyc's has a long term relationship with Microsoft, having decided to build Soleus around a Microsoft software "kernel" and leveraging Microsoft's significant marketing and development resources. For the last five years Microsoft has been battling with the likes of Research in Motion and others in the wireless market and is realizing increasing success. Intrinsyc also has significant experience with competing platforms including Symbian, Windows Mobile and Linux. Microsoft is not currently interested in stripping down its Windows Mobile system and removing Microsoft branding to compete with Soleus in the consumer phone market. Most Soleus design wins will range from $1-10m per year, although a homerun design win with the likes of Samsung, Motorola or Nokia could add $10-25m per year.

Intrinsyc's biggest strength is its management team and in particular its new executive team led by Glenda Dorchak and Mark Johnson, both from Intel. This team has already proven its ability to secure high profile customers and we look for more exciting design wins in the early part of 2008 (around 3GSM and CTIA trade shows).

Overall, we believe that Intrinsyc is a very exciting company and we applaud the Company's strategy, most notably the move into the feature phone market. Specifically, we believe the upside on new business offers significant upside for the stock over the next year. As a result, we are initiating coverage of Intrinsyc with a Buy rating and a $2.00 target price.

Background

Headquartered in Vancouver, British Columbia, Intrinsyc (the Company or ICS) designs, markets and sells a variety of software solutions for embedded systems in cellphones and other wireless devices. Original equipment manufacturers (OEM), original design manufacturers (ODM) and silicon vendors use the Company's products and services to help bring new wirelessly-enabled devices to market in a timely and cost effective fashion. Intrinsyc employs over 200 staff split between its head office in Vancouver and its other offices in Bellevue Washington, Cupertino California, Taipei, Taiwan (opened in 2007) and the UK (to be closed in 2008).

Founded in 1992 in Alberta, Intrinsyc was originally called "I.T.C. Microcomponents", before moving to Vancouver and changing its name to Intrinsyc Software Inc. in June 1997. The Company completed an IPO on the VSE in April 1996 and graduated to the TSX in 2001.

In recent years, the Company has boosted its balance sheet through a pair of large equity financings, including $24m in March 2006 at $0.90 per unit (one share and half warrant exerciseable at $1.05) and $20m in May 2007 at $0.60 per share.

The following chart shows the Company's stock chart for the last five years, with a fairly narrow trading range between $0.50 and $1.50. Over the last year, the stock has recently touched a 52 week high of $1.30 in January 2008, with a 52 week intra-day low of $0.39 only four months earlier in September 2007.

Figure 1: Intrinsyc's Five Year Stock Performance

Source: Yahoo

Five Reasons to Buy Intrinsyc

We believe that Intrinsyc has the right product, at the right time, in the evolution of the data enabled cellphone market. As a result, we see a number of catalysts for the stock and we suggest the following five reasons for buying the stock:

1. **High Impact New Product** - The most exciting part of ICS today is the new Soleus operating system for consumer cellphones, which has been more than three years in the making. At $3 per handset this product has enormous revenue potential and raises the Company's profile in the industry considerably. In 2008, we look for the Company to generate revenues for the first time from early design wins, and to announce a handful of new design wins with key handset OEMs. Tier 1 cellphone handset design wins could be enormous and would be a major positive catalyst for the stock in our opinion.

2. **Microsoft Partnership** - Microsoft continues to make a determined push into the expansive cellular market and has enormous resources to support partners like Intrinsyc. With its recent introduction of Windows Mobile 6.0 and the earlier launch of wireless email, Microsoft is finally gaining traction. Intrinsyc's software is built using Windows CE embedded software and MSFT employs significant technical and marketing resources to support ICS pursuing the mid range cellphone markets. Microsoft is not expected to compete with ICS, given the restrictions on memory, cost and branding in the feature phone market.

3. **Large Cellphone Market** - The remarkable growth in the world cellphone market continued in 2007, with unit shipments exceeding 1 billion, up ~100% from 2003 levels and more than triple 1999 levels. Over the last five years the most important trends have been the move to outsourcing cellphone design and production and the growth of wireless data. Soleus is designed for ODM's and other vendors to quickly and cost effectively develop new wireless cellphones and wireless GPS enabled devices. We believe the market for these products is $3 per unit for ~150m units per year today and ultimately increasing to 500m units per year.

4. **Leveraged Business Model** - The design win model for Soleus offers considerable revenue and earnings leverage for ICS. The combination of upfront licensing fees plus per unit royalties (~ $3 per handset) and low variable costs, with the software factory-installed by others, is a good model for Intrinsyc. In our view, design wins could range from $1-10m in annual revenues, with further upside for tier 1 vendors like Nokia, Motorola or Samsung ($10-25m p.a.). Motorola and Nokia are already engineering services customers. The Company has already secured bundling deals with the five leading chip vendors Samsung, Intel, Agere, Texas Instruments and Freescale, which allows pre-certification and faster implementations.

5. **Reliable Core Business** - Intrinsyc has built a solid ~$15m per year standalone consulting business, which provides a solid foundation for cross selling Soleus. The current business is fairly steady and modestly profitable, generating some cashflow to help offset some of the costs of ramping the Soleus business. Profit breakeven is ~$9m per quarter in total revenues, which we believe the Company can achieve by the end of FY09.

Products

Over the last 10 years, Intrinsyc has established itself as a leading provider of embedded systems software expertise for major handset OEM's, working with most of the world's key vendors. Today, the Company operates as three business units: Mobile Software Products (namely Soleus or MSP for short), Mobile and Embedded Solutions (MES) and Enterprise Interoperability Solutions (EIS).

The Company's primary focus is now the Soleus MSP business, which licenses software to major handset vendors, who embed the software directly into their cellphones or other wireless devices. This business started generating revenues in late 2007/early 2008. The Company's second key business is the MES division, which provides consulting services on embedded systems to major handset vendors and is currently a $15m per year business. Customers in this division include the top two handset vendors in the world, Nokia and Motorola.

The Company's third and smallest business is the EIS division which licenses software for other industrial products and markets including building automation and security and surveillance applications; telecom/datacom providers; financial institutions; software developers and application service providers; medical device and consumer electronic manufacturers and other OEMs. This business is approximately $3m per year and will not be discussed in any more detail in this report.

Overall, Intrinsyc has a track record of implementations with a number of embedded systems including:

- Smart/Feature Phones
- Portable Data Terminals
- IP Telephony Phones
- Wireless Devices
- PDAs
- Set-top Boxes
- WebPADs/Tablet PCs
- Web Appliances
- Text Messaging Devices
- Digital Cameras

The following exhibit shows the evolution of the cellphone form factor over the last ten years, with an increasing number of today's phones offering advanced graphics and a wide range of wireless data applications.

Exhibit 2: Cellphone Evolution

Source: Paradigm Capital

Soleus

The main focus for the Company going forward is Soleus, a new cellphone operating system. Soleus is a turnkey software platform for "feature" phones that are built using the Microsoft Windows CE software kernel. Accordingly, Soleus is software that provides automatic compatibility to Microsoft applications (Word and Excel for example and numerous others), one of its key attributes. Soleus also includes an application portfolio aimed at consumer mobile handset designs, including Internet browsers, email, messaging, handwriting recognition, voice dialing, audio and video codecs for multimedia playback, pre-certified telephony software components, address book, calendar and a camera, to name a few. The development of Soleus began in late fiscal 2004 and has continued since that time.

The software requires limited memory capacity and is efficient and can be standardized across a large number of phone designs, making it cost-effective and feature-rich for the cellphone makers and their customers, the carriers. Windows CE is an embedded operating system used in low cost embedded systems that are less complex than the Windows XP code that is used in personal computers.

Advantages of Soleus:
There are a number of advantages offered by Soleus, but the three main advantages are:

1. Lower Cost
2. Improved Time to Market
3. Greater Flexibility

Soleus achieves "lower costs" by reducing the R&D costs for OEM's through faster design and lower software licensing and hardware costs. Soleus improves the "time to market" through standardized design software, allowing a host of features to be tailored to the needs of many different carriers easily and quickly. This "time to market" advantage is a priority for handset vendors given the vast number of cellular carriers (more than 350); given the shorter handset lifecycles and as competitive pressures continue to grow. Soleus achieves "greater flexibility" by enabling device personalization with widely different product feature sets, form factors and aesthetics. Soleus also enables unique carrier branding of devices, with one design package across an entire suite of new phones.

Other implied advantages of the product include small memory requirements, rapid carrier certification, pre-packaging of carrier branded applications, easy enterprise software connectivity and device performance improvement.

The total addressable market for Soleus today is believed to be 100-200 million devices across more than 300 handset vendors. Longer term, we think Soleus could cover the bulk of the world's cellphone market plus many other handheld devices, totaling upwards of 500 million devices shipped per year (or $1.0-$1.5b per year in total addressable market).

Soleus Design Wins:

ICS started development of Soleus in 2004 and completed version 1.0 in December 2006 (using WinCE 5.0). Revision 1.01 (using WinCE 6.0) was subsequently introduced in August 2007; and, in total, five design wins were announced in 2007. Intrinsyc will receive site-licensing revenues from Soleus licensees and per-unit royalty revenues as customers begin product shipments. The six design wins announced so far include:

1.	Handset OEM	March 31, 2007
2.	ODM (Micro-Star)	June 2007
3.	Handset OEM (order #2)	October 31, 2007
4.	Quanta	November 13, 2007
5.	Silicon provider	November 20, 2007
6.	Samsung	January 2008

License deals #1 and #3, with an unnamed Handset OEM, revolve around handheld GPS devices looking to add wireless functionality. We believe this customer to be MiTAC International of Taiwan, the manufacturer of the Navman and Mio lines of PDA's, phones and handheld GPS navigation products. The Company has also announced a number of partnerships with leading silicon vendors to bundle the ICS software with existing application processors, including Marvell, Texas Instruments, Freescale and Samsung. These deals expedite the product implementation cycle. The Company also announced MOU's which could translate into potential license deals with Ginwave, Cellon and Wistron in 2006.

The following figure shows the pictures of the first Soleus enabled phone introduced by Micro-Star International of Taiwan at the Consumer Electronics Show (CES) in January 2008. The device includes EDGE/HSDPA wireless, WiFi, a 667MHz Samsung processor, a two megapixel camera, GPS, and digital TV reception in T-DMB, DVB-H, and ISDVT formats. Shipments to China, Europe and the Middle East are expected to begin in Q2 2008.

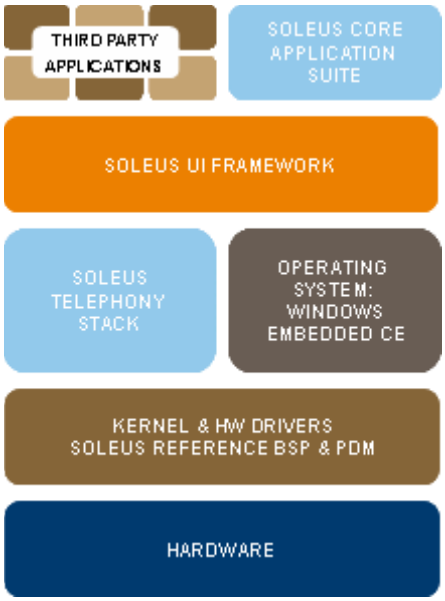
Figure 3: Micro-Star 5608 Soleus Enabled Phone

Source: Windowsfordevices.com

What is an Operating System?

The term “operating system” may be unclear to some readers. An operating system encompasses many facets of the cellphone, but is most evident in the user interface (as shown below in Figure 5). The user interface (UI) is primarily responsible for the look and feel of devices but also manages the most basic operations of the device and the underlying components that make the phone work. The total Soleus solution includes a number of pieces given its modular design. The relationships between Soleus and the various hardware components, the software applications and the other pieces of the puzzle are shown below in Figure 4:

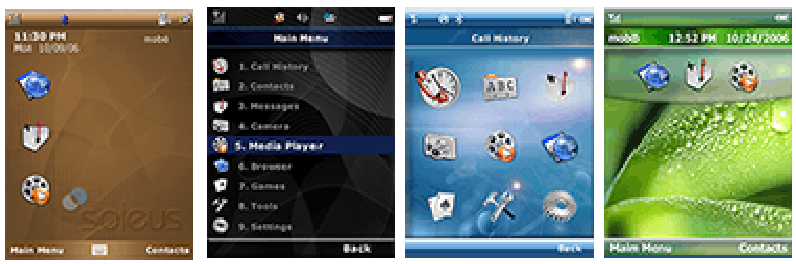
Figure 4: The Structure of Soleus



Source: Company

The net result of Soleus to the ultimate cellular user can take any number of formats, as is shown below in Figure 5. The use of colours, icons, menus and images is almost limitless, making it easily configurable and personalizable for different carriers, different handset vendors and different types of handsets.

Figure 5: Examples of Soleus



Source: Company

Competition

The competition in the cellphone operating system market is more about alternative technologies vying for the business and less about direct competitors doing the exact same thing. Intrinsyc is the only company developing a cellphone operating system based on the Microsoft WIN CE software platform for mid range multimedia consumer phones. Microsoft has its own product for the high end smartphone market, but chooses not to "strip it down" in terms of cost, branding and size to suit the expansive mid and low end phones. Other software vendors do exist across a variety of different platforms for customers to choose from. The leading cellular platforms, across all phone types, are:

- Real Time Operating Systems (RTOS)
- Symbian (owned by Nokia)
- Microsoft
- Linux
- Proprietary (Blackberry, Apple OS-X)

The following table shows the current industry profile for operating systems and the markets that they address:

	Low Cost	Featurephone	Smartphone
RTOS	✓	✓	
Symbian			✓
Microsoft			✓
Linux	✓		✓
Proprietary			✓

The key performance metrics for cellphones include reliability, simplicity, usability, cost, ease of design, hardware and memory requirements and battery efficiency. Historically most consumer phones over the last 20 years had RTOS, which were well suited for the low bandwidth voice traffic. Over the last 10 years high end smartphones have soared in popularity. These smartphones come with extensive wireless data applications (email, browsing and cameras) and require high level operating systems. The smartphone market is split between standard operating systems like Symbian and Microsoft Windows Mobile and proprietary systems, including the iPhone (Apple OS-X) and the Blackberry. The successful launch of the iPhone and its touchscreen user interface has stimulated significant interest in new operating systems. This may be repeated with the expected launch of the Google Android system in 2008. Increasing wireless data traffic and the consumer appeal of advanced graphics, driven in large part by the success of smartphones, has forced mid-range phones to upgrade RTOS systems to follow suit.

The cost, size and performance constraints of the feature phone means the best smartphone operating system may not be the best for the mid range market. Over the next 12-24 months the market could see a huge cellphone operating system battle. This is the market opportunity for Intrinsyc, which has created a solution focused on cost, flexibility and time to market. It is worth noting that Intrinsyc has expertise in many embedded systems including Linux, Symbian and Microsoft, but choose WinCE as the most appealing technology for this market.

Historically, Motorola has been the most progressive handset vendor, experimenting extensively with Linux, Windows and other systems across all tiers of vendors. More recently, other vendors like Nokia have also stepped up their efforts, purchasing Trolltech (a Linux system developer), despite already owning Symbian and holding 40% market share in the total cellphone market. The strength of new operating systems was proven beyond any doubt with the iPhone and the OS-X operating system, which contains areas of significant innovation.

A number of vendors in the industry, including Intrinsyc, Wind River, SavaJe and Esmertec, license the source code (also known as the software kernel) for Linux or WinCE and build complete cellphone operating systems with development tools and customizable user interfaces. These solutions are then bundled with various chip suppliers (Intel, Texas Instruments, Samsung, Freescale and Agere), making the solutions effectively "plug and play" for the cellphone makers.

The following highlights some of the main competitors in the higher level operating systems (excluding the proprietary systems) and the types of platform they support.

Figure 6: Competition Table

Microsoft	Java	Linux	Palm	Symbian
Microsoft	Esmertec	Trolltech	Access	UIQ Technology
Intrinsyc	SavaJe	Wind River		Symbian
Neonode	Aplix	Empower		
Emblaze	TTPCom	MontaVista		
HTC	Sun Microsystems	Acess		
China Tech Faith		OpenMoko		
		Mizi Research		
		a la Mobile		
		Open Plug		
		Purple Labs		

Source: Paradigm Capital

Both cellphone makers and cellular carriers have important choices about systems design, which include decisions on operating systems and system platforms. Historically cellphones were built on proprietary platforms inherent to each manufacturer or using legacy real time operating systems (RTOS). With the largest handset makers moving to outsourced design and production, these decisions now fall to the ODMs. ODMs often work with various OEMs and need to add more functionality (beyond simple voice) while also decreasing the time to market and the cost of the bill of materials. Furthermore, the carriers are increasingly involved in the decision making on aesthetics and functionality, demanding more customization for each phone, pushing beyond the capabilities of the old real time operating systems. The number of new handsets introduced each year worldwide is astounding, which is also forcing the use of more standardized operating system design tools.

Management

Over the last two years, management at Intrinsyc has seen an enormous change. The biggest change occurred in 2006, with the Company's long time CEO Derek Spratt stepping down to be replaced by a new CEO, Glenda Dorchak, a Board member and a former Intel executive. Other personnel changes occurred in 2007 with the departure of then CFO Andrew Morden, replaced by David Fischer, formerly of MDSI Mobile and the additions of Souheil Gallouzi formerly of Qualcomm and Mark Longo, General Counsel, formerly of Datawire. Long time Chief Technology Officer Randy Kath, formerly Director of the Mobile division at Microsoft and chief architect of Soleus, remains with the company. The senior management team is as follows:

- Glenda Dorchak, CEO
- Mark Johnston, Executive Vice President Worldwide Sales
- David Fischer, Acting CFO
- Randy Kath, Chief Technology Officer
- Souheil Gallouzi, Vice President Mobile Products
- David Manuel, Executive Vice President Engineering Services
- Mark Longo, General Counsel

The Company's board of directors includes 7 individuals, with just one insider, Glenda Dorchak. The Company's independents include George Duguay (a consultant and director at Genesis Microchip), Phil Ladouceur (former executive at Rogers, Bell Canada International and MetroNet) Joe Heel (former Sun Microsystems Executive and McKinsey & Co Partner), Ketan Kamdar (Vice President at Broadcom), Thomas Bitove (well known entrepreneur) and Robert Gayton (VP Finance at Western Copper and also the lead director of ICS).

Management and directors own a modest stake in the Company, with approximately 0.8m shares or less than 1% of the Company.

Q4 Financial Highlights

On November 8th 2007, Intrinsyc reported its Q4 and FY07 results. The results continue to reflect the early stage of the rollout for Soleus, with significant Soleus related expenses ($3m in Q4) and little to no related revenues. In Q4 the company generated total revenues of $4.5m, down 8% y-o-y and 11% sequentially as some legacy services were phased out, with a loss of $4.1m down from $4.4m last quarter and a year ago. The following table outlines the highlights and the trends in some major financial indicators:

Figure 7: Q4 Results Summary

	Q4/F2007	Q3/F2007	Q4/F2006	% Change Q3/F2007	% Change Q4/F2006
Revenue (US$)	4,537	5,112	4,924	-11.3%	-7.9%
Gross Margin (%)	49.1%	51.8%	46.7%	-2.7%	2.4%
Operating Expense	5,891	6,103	6,126	-3.5%	-3.8%
Operating Income	(3,665)	(3,455)	(3,827)	NMF	NMF
Net Income	(4,109)	(4,383)	(4,430)	NMF	NMF
EPS - basic **	($0.03)	($0.05)	($0.05)	NMF	NMF

Source: Company, Paradigm Capital

Gross margins remained fairly steady in the 50% range. Operating expenses decreased to $5.9 million, down 4% sequentially and down 4% y-o-y, as the Company continues to pursue its new and existing product lines. This combination of lower revenues and lower opex costs translated into a slightly lower operating loss of $4.1m versus $4.4m last quarter and $4.4m a year ago. Again, this performance is somewhat misleading given the significant investment and the lack of significant revenues from Soleus (expected in 2008).

Some of the key points in the quarter and for the year include:

- The Company plans to switch its year end from August to December and will switch to US$ reporting. ICS will report a four month stub period ending March 31st, 2008.
- Product mix was split 10% software, 5% hardware and 85% services for FY07. The product split in Q4 was 13%/3%/84% respectively.
- The first Soleus revenues were recognized in the quarter ($81k) from two license deals
- Headcount was slightly over 200
- Soleus operating expenses totaled $2.9m in the quarter
- Geographically, 56% of revenues came from the US, 6% from Canada, 37% from Europe and 1% from the rest of world.
- The top customer represented 26% of the total, with the next two largest customers representing 24% and 6% respectively.
- Company plans to shut down its UK office, which will reduce operating expenses by $2m annually.

Outlook for Soleus

Intrinsyc currently has 5 Soleus design wins, all of which should generate revenues in 2008. The Company is also targeting one new design win per quarter this year and growing over time. We believe design wins could range from 250k units to multiple millions of units per year or $1-10m per year in revenues. Even individual design wins will see varying levels of annual revenues as unit shipments ramp up and then subsequently decline to end of life.

Overall, we are modeling Soleus revenues of $4.75m in FY08 (~1.5m units and ending the year with 10 revenue generating designs), $17m in FY09 (~6m units and 17 revenue designs) and $35m in FY10 (~14m units and 25 revenue designs). As shown in Appendix 2, we are modeling total revenues of $20m in FY08, $34.5m in FY09 and $55m in FY10 including engineering services and Soleus.

Balance Sheet

Intrinsyc has a strong balance sheet having raised $20 million in May of 2007 and having just announced a $30m in February 2008. We have included a quarterly balance sheet and an annual cashflow statement in Appendix 2. In our forecasts the Company does not need to raise additional cash in the forecast period.

At the end of the last quarter the balance sheet is straight forward, with $19.6m in cash (down $1.8m in the quarter), $3.1 million in accounts receivable, $0.5m in prepaid expenses, $1.5m in fixed assets, $14.2m in intangible assets and $0.4m in other long term assets.

On the liability side, the Company had $3.6m in accounts payables, $0.4m in income tax payables, $0.7m in deferred revenues and $0.2m in other long term liabilities. The Company's total shareholders equity stands at $34m or $0.29 per share, although excluding goodwill reduces book value to just $20m or $0.17 per share.

It is worth noting that the Company has 7.7m options outstanding at year end with a weighted average exercise price of $0.79, of which 4.0m have vested with a weighted average exercise price of $0.88. Another 1.5m options are available under the existing employee share option plan, which could be granted without shareholder approval. The options vest over a three year period and have a 5 year term.

The Company also has 21.5m share purchase warrants outstanding with an average price of $0.92. If exercised the existing purchase warrants would generate $19.8m in additional cash with 18.4% dilution to existing shareholders. The vast majority of these warrants expire in March 2010.

Risks

Intrinsyc is aggressively pursuing a new product and a new market opportunity, which carries a higher than normal risk profile. The key risks today relate, in our opinion, to competition, long design win cycles, customer concentration, reliance on WinCE and managing growth in an R&D intensive business. These risks are discussed in more detail as follows:

1. Reliance on WinCE

While the advantages of partnering with Microsoft are vast, the reliance on WinCE does pose a risk. Fortunately, Intrinsyc has considerable expertise in Windows Mobile, Symbian and Linux and could grow organically or through acquisitions into those markets. The Company has a clear focus on WinCE today but would require significant cash and people resources to develop new software platforms in-house. Longer term, we look for ICS to announce more formal plans to add new platforms.

2. R&D Intensive Business

Intrinsyc has invested considerable sums of money in Soleus, highlighting the significant amount of development work necessary to compete in the handset software business. R&D grew from $1.5m in FY04 to $11m in FY06 and $12m in FY07. This investment forced Intrinsyc to raise money on a number of occasions in the past and to dilute early shareholders (from 40m shares in 2004). With 119m shares outstanding today, ICS has limited its share price leverage and will be hard pressed to generate significant EPS. Nevertheless, we are pleased to see Intrinsyc realizing real success in the sales and marketing phase of Soleus' evolution. And given the enormity of the total addressable market it is our opinion that ICS will become a very meaningful player.

3. Long Design Win Process

Most shareholders of Intrinsyc are already well aware of long sales cycles that can be standard in the cellphone design win process. Fortunately, follow-on design wins with the same customers appear to have a much shorter duration. Also given the recent flow of design wins it is fair to assume that the missionary selling done in 2006 and 2007 was the most difficult and it only gets easier from here.

4. Customer Concentration

Today, Intrinsyc's top two engineering services customers represent about 50% of revenues and going forward we will continue to see a high customer concentration even as Soleus ramps. The design win model offers considerable revenue and earnings leverage but we are likely to see revenues from only a handful of OEM's in 2008. This means revenues in 2008 and 2009 are likely to be lumpy and we could theoretically see some volatility and variability in those numbers. Contractual commitments will protect us from some of the downside risk but short life cycles for most phones means ICS will need to continue its winning ways.

5. Competition

The biggest challenge for Intrinsyc is the competition from alternative technologies like Symbian, Linux and Android. These technologies also face the challenge of replacing in-house proprietary systems and RTOS vendors who are deeply entrenched with existing handset vendors. Fortunately the success of smartphones and the outsourcing of handset design and production has accelerated the adoption of new data enabled phones and the related data focused operating systems.

Valuation and Recommendation

Intrinsyc is a difficult company to value given the early stage nature of Soleus, in which the Company has invested heavily. The combination of its solid consulting/licensing business and the new higher profile software business is a good one. In particular, we think the new Soleus software business is highly leverageable based on potentially large design wins with the handset OEM's significant revenue and earnings leverage. Looking at the comparables, the industry appears to trade at a very wide range of of 1-7x sales, with only a handful of companies actually generating earnings.

The valuation metrics fluctuate noticeably with two tiers of valuations: 1x sales, 3-7x sales. The overall average for the group that we have highlighted is 2.1x, well below the implied multiple on Intrinsyc's current combination of Soleus and engineering services businesses (7.3x).

The following comparable table highlights the various financial metrics for the wireless software universe:

Figure 8: Comparable Table

		Price	Market Cap	LTM Revenues	LTM Earnings	Net Cash	P/S Multiple	P/E Multiple
			($ m)	($ m)	($ m)	($m)		
Bsquare	BSQR	$ 5.43	54	58	2.2	12	0.9	24
Esmertec (CHF$)	ESMN-SWX	$ 8.80	193	34	-9.4	7.0	5.7	na
Empower	EPT-V	$ 0.58	21	0	-3.3	0.1	NA	na
Infospace	INSP	$ 9.87	329	303	-13.0	215.0	1.1	na
Openwave	OPWV	$ 2.02	166	257	-92.0	82.6	0.6	na
Radisys	RSYS	$ 10.26	228	287	-20.6	2.5	0.8	na
Wind River Systems	WIND	$ 8.20	716	320	0.0	100.8	2.2	na
Zi Corporation	ZICA	$ 0.82	42	13	-4.6	6.5	3.2	na
Average							2.1	24
Intrinsyc	ICS	$ 1.20	143	20	-17.0	20.0	7.3	na

Source:Paradigm Capital

Specialized handset software vendors like Esmertec, Intrinsyc and Zi trade at premium sales multiples between 3-7x trailing 12 month sales. Other general telecom software vendors like Infospace, Openwave, Radisys and Bsquare trade at lower multiples in the 1.0x range. On an earnings basis, only one of the industry comparables is profitable, trading at 24x trailing earnings.

There have been a number of M&A transactions in this space recently and over the last five years. The most recent example is Nokia's plan to acquire Trolltech, a linux software operating system vendor, for $153m announced in January 2008. The implied valuation metrics on the Trolltech deal is 3.25x trailing revenues, which is lower than the comparable average, possibly reflecting financial disappointments at Trolltech. Other examples include the acquisition of China MobileSoft by PalmSource for US$16m in December 2004, followed by the acquisition of PalmSource by Access (from Japan) in September 2005 for US$324m in cash (an 83% premium). Other deals included Sun Microsystem's acquisition of SavaJe in April 2007 (terms not disclosed), Google's acquisition of Android Inc. in July 2005 (terms not disclosed), Nokia's acquisition of Intellisync for US$430m in November 2005 and Harmon's acquisition of QNX (from Ottawa) for $138m in 2004. We believe that Intrinsyc is also a good take-out candidate, given its unique product and its market positioning. Likely acquirors could include Microsoft, Access, Nokia, HTC, Motorola, Symbian and/or Openwave.

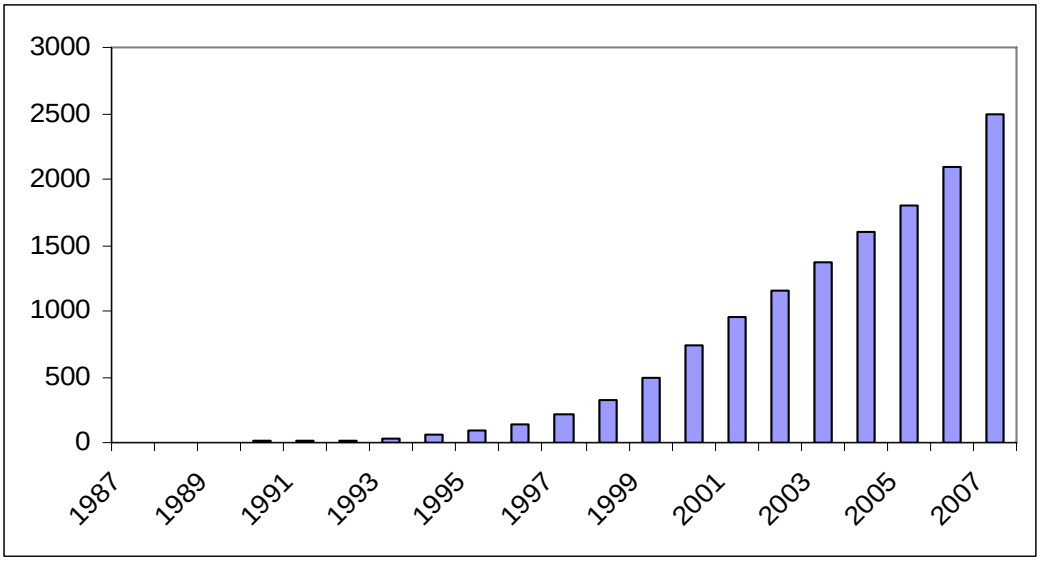
Overall, we are excited about the potential for Intrinsyc's newest product and we expect the Company to raise its profile in the public markets considerably. As a result, we believe that Intrinsyc can easily trade as high as 5-10x sales on its announced Soleus design wins and 1-2x on its Engineering services business. This combination suggests a target price in the range of $2.00 per share, implying significant upside on the stock. As such, we are initiating coverage with a Buy rating.

Appendix 1: Wireless Industry Background

The wireless industry continues to blossom with exceptional growth in a period of long term expansion. In 2007, the industry passed through 2.5 billion subscribers and continues to grow at an annual rate in 15% range, worldwide (Figure 9). For the second year in a row, the cellular handset vendors shipped more than 1 billion units (Figure 10). This is a remarkable rate, having been sustained for more than 20 years with few signs of abating.

The market for devices and base station infrastructure to support this growth is also expanding, but the expansion is not always linear. There are now over 500 established wireless networks operated by more than 300 carriers worldwide. As the market continues to mature, we are seeing accelerating wireless data traffic and a more general trend to higher voice usage and lower rate plans. To accommodate the rapid change and to work within the frequency spectrum that is available, carriers are forced to look to new technologies and to new device orientations to accommodate the new traffic load. This is really the essence of the burgeoning demand for converged voice/data cellphones (smartphones and feature phones).

Figure 9: Worldwide Cellular Subscribers (000's)

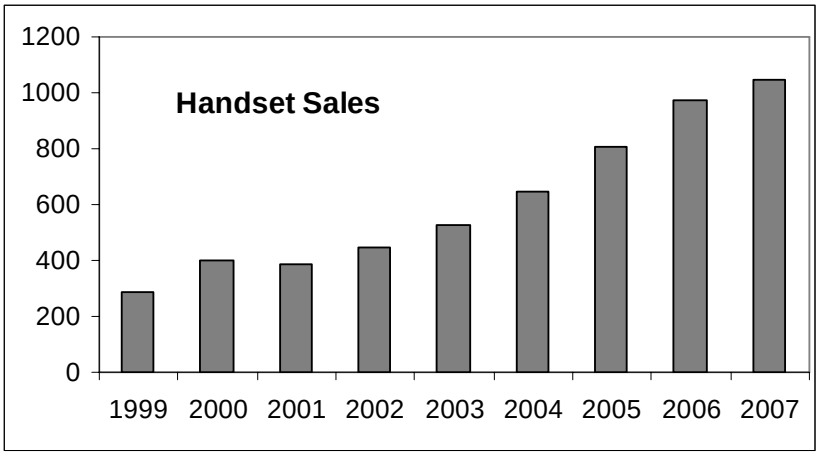


Source: Paradigm Capital

Looking back, we have evolved from first generation analog technologies (in the 1980's), through to second generation digital technology (in the 1990's) to third generation packet data technologies (in the 2000's) which now accommodates both voice and data simultaneously and equally. Nevertheless, the cellular universe remains split between two basic cellular technology platforms, CDMA and GSM and their respective technology upgrades.

Carrier spending has increased every year over the last 20 years, although it has leveled off the last 3 years. The base station spending has noticeably lagged the device growth, which is more closely aligned to the strong subscriber growth (shown above):

Figure 10: Worldwide Handset Shipments



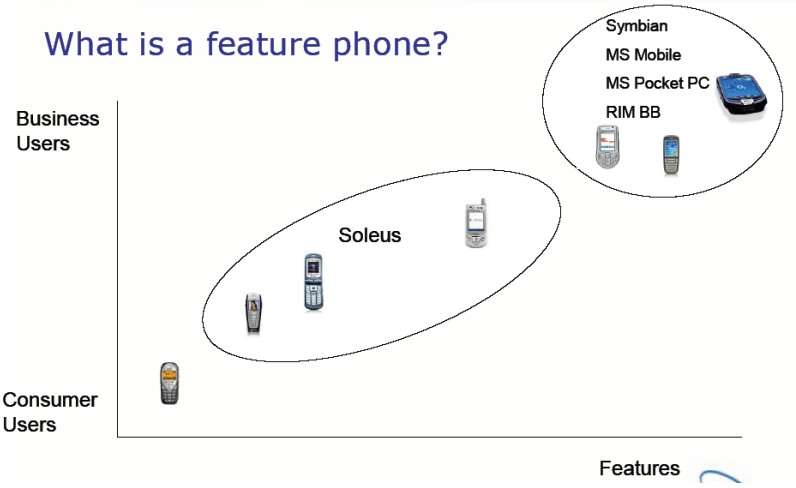
Source: Paradigm Capital

The Evolution of the Cellphone

The fastest growing market in the cellular handset market is the data centric phone, including both "Feature Phones" and "Smartphones". The exact definitions of a Feature phone and a Smartphone are a little ambiguous and the terms are often misused in our opinion. In the most basic sense, a smartphone is a PDA type device that offers both voice and data capabilities with its own keyboard. A feature is a low or mid range phone, with a more traditional phone form factor (flip phone or candy bar design), with more limited data functionality.

The following image highlights the broad generalization of feature phones and smartphones.

Figure 11: Cellphone Market Segmentation



Source: Intrinsyc

Over the last 3 years, we have seen a vast number of new feature phones and smartphone products coming to market, with a wide range of new features most notably multimedia functions, cameras, colour screens, Bluetooth and many others.

The smartphone has been instrumental in changing the cellphone landscape forever. These devices, like the Blackberry, have driven the wireless data traffic to record levels and have vastly increased the profitability of the carriers. The introduction of true broadband cellular networks capable of more than 1 Mbps of throughput has also changed the landscape forever. Over the last 10 years, we have seen a more than 1,000x increase in cellular throughput and many new cellular applications are now possible for the first time (video streaming, internet browsing, video surveillance just to name a few).

Cellphones now come in a variety of shapes and sizes, thanks in part to a range of choices in operating systems, which drive the data functionality of the devices.

A handful of the more successful smartphones are illustrated in the following picture, which started the ball rolling for wireless data and opened the door for higher level operating systems:

Figure 12: Popular Smartphones

Source: Paradigm Capital

Many of these devices featured push-type email, Web browsing, SMS, MMS and Instant Messaging capabilities. A typical hardware configuration for these devices included a full QWERTY keyboard, a 200-300 MHz processor, 48 MB of flash memory, an integrated microphone and speaker-phone capability, USB connections and synchronization with Microsoft Outlook through Intellisync or ActiveSync software. The biggest challenges and limitations in design of handsets continues to be a small screen size, a limited battery life, the modest data rates of the network, high heat dissipation requirements, the need for decreasing production costs and increasingly smaller form factors of the device itself. These challenges are compounded by a very short product life cycle of just 6-18 months.

Feature phones represent approximately 25-40% of the total market, with low end low cost phones now representing the bulk of the market in terms of volume at ~50-70% share. We believe the leading smartphone providers today are Research in Motion, HTC of Taiwan, Apple and Palm. By our estimation, taking into account the RIM, HTC, Apple and Palm shipments, approximately 20-25m smart phones shipped in 2007. This makes up just 2%, of the 1 billion unit (~$200 billion) cellphone market, albeit double the percentage in 2006.

The following table highlights the leading cellphone vendors and their respective market share positions in the total handset market over the last three years.

Figure 13: Worldwide Handset Shipments (millions of units)

	2005	2006	Q1 2007		Q2 2007		Q3 2007		Q4 2007		2007
1 Nokia	265.2	348	91.1	38.1%	100.8	38.0%	111.7	38.9%	134.3	40.2%	438
2 Motorola	146	217	45.4	19.0%	35.5	13.4%	37.2	13.0%	41.1	12.3%	159
3 Samsung	102.9	118	34.8	14.6%	37.4	14.1%	42.6	14.8%	46.8	14.0%	162
4 LG	54.9	64	15.8	6.6%	19.1	7.2%	21.9	7.6%	23.7	7.1%	81
5 Sony Ericsson	51.1	65	na	na	na	na	25.8	9.0%	31.1	9.3%	103
Others	190.7	191	51.9	21.7%	72.2	27.2%	47.8	16.6%	57.1	17.1%	191
Total Units	810.5	1,020	239		265		287		334		1,125
(millions)	22%	26%									10%

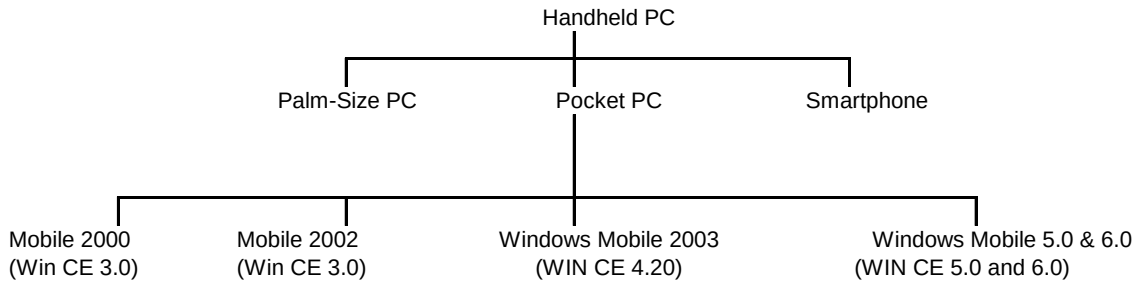
Source: Paradigm Capital

Microsoft and the Wireless Market

Microsoft has been working hard to break through in the wireless industry for the past 10-15 years. Microsoft has two areas of interest in the wireless business, namely, the embedded system software and the cellphone operating systems. The introduction of a formal "Handheld PC" operating system platform in 1996 marked MSFT's first commercial foray into the space. Microsoft's offering in the embedded software code is Windows CE, which Microsoft has used for all of its wireless operating systems. Since then Microsoft has developed a number of different operating systems platforms as shown below in Figure 14. These high level platforms include the "Palm Size PC", the "Pocket PC" and the "Smartphone" branded as: "Mobile 2000 & 2002" and more recently "Windows Mobile". These systems come with very specific technical specifications including extensive, predefined Microsoft branding as discussed in more detail on the next page.

The following graph highlights Microsoft's various operating system platforms in the wireless space over the years.

Figure 14: Microsoft Operating System Platforms



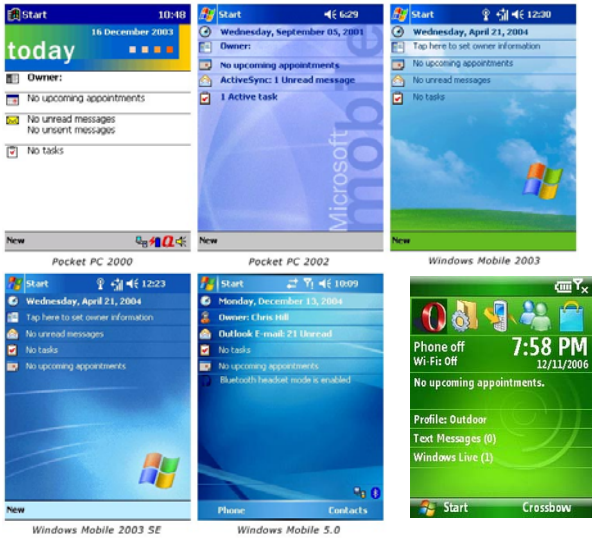
Source: Paradigm Capital

The software giant currently fields two main embedded operating systems: Windows CE and Windows XP. The Windows CE platform is a more componentized version of XP and is better suited for cellphones and other small form factor computing devices. Windows XP is primarily designed for computers, servers and other high end networking devices and will not be discussed any further in this report. Win CE has evolved over the years through various versions and is currently available in versions 6.0 and 6.1.

Microsoft's current focus in the handset business is Windows Mobile, aimed at the Smartphone market. Windows Mobile combines Windows CE and a run-time environment known as the NET Compact Framework. Leading hardware vendors that support these Microsoft platforms include HTC, HP, Dell, Toshiba, Fujitsu, Siemens, ViewSonic, Acer and Philips.

These hard rules have helped to create opportunities for others, like Intrinsyc, to develop other WinCE based operating systems with lower costs, smaller memory requirements, greater design flexibility and the ability to incorporate non Microsoft software applications. All of the past and present Microsoft operating systems have their own software code and a very detailed set of technical specifications. These specifications include processor power, form factor, operating system (including colour, format and selected icons), branding, software applications, screen resolution, keyboard configuration, connectivity slots, memory size, telephony components, possible hardware peripherals and many other technical specifications. Microsoft offers very little to no flexibility on these platforms and the platforms favor Microsoft in terms of branding and the types of applications running on the devices. The following figure shows the different user interfaces and graphical representations used by Windows Mobile over the last 10 years.

Figure 15: The Evolution of the Microsoft Wireless Operating Systems



Source: Microsoft, Paradigm Capital

WINDOWS CE

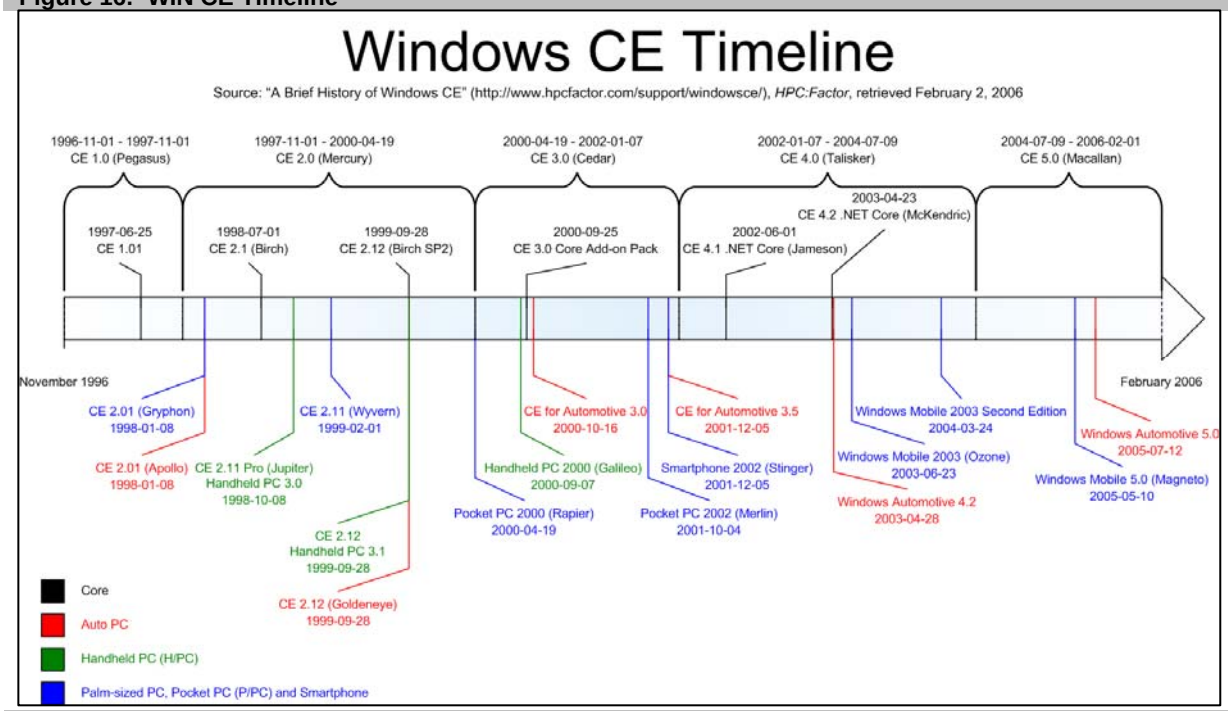
Windows CE was designed to be a single, easy-to-maintain operating system, ideal for wireless devices. The code was designed for equipment vendors looking to reduce the bill of materials by reducing the memory requirement, the power of the processor, and the supported peripherals, but at the same time include support for the latest operating system technologies.

Without a standard operating system, handset vendors were historically forced to rewrite software such as messaging or games, for each new phone, tying up developers and limiting innovation. Windows CE's source code is open to developers, giving them the ability to examine the software, modify its functionality and allowing them to "port" it to a specific hardware design.

The operating system itself is a combination of vendor supplied drivers written in C or Assembler language and the kernel written exclusively in C. The Windows CE kernel provides memory management, preemptive multitasking and interrupt handling. On top of the kernel sits the graphical user interface (GUI), including the software applications, and the telephony components.

The following diagram illustrates the history of Win CE, since its origins in 1996:

Figure 16: WIN CE Timeline



Source: HPC Factor.com

Appendix 2: Intrinsyc Financial Statements

Figure 17: Income Statement

(in C$ 000s) CAN GAAP Fiscal year end August 31st	Actual FY04	Actual FY05	Actual FY06	Actual FY07	Stub Dec-31	Estimate FY08	Estimate FY09	Estimate FY10
Revenue	**15,176**	**17,539**	**18,658**	**19,706**	**5,000**	**20,250**	**34,500**	**55,000**
Y/Y Change	9.3%	15.6%	6.4%	5.6%		2.8%	70.4%	59.4%
Q/Q Change								
COGS	8,927	9,081	11,318	10,034	2,500	8,435	8,638	5,500
Gross Profit	6,249	8,458	7,340	9,672	2,500	11,815	25,863	49,500
Gross Margin	*41.2%*	*48.2%*	*39.3%*	*49.1%*	*50.0%*	*58.3%*	*75.0%*	*90.0%*
R&D	1,507	4,043	11,107	12,026	3,250	12,500	13,750	18,000
% of Revenue	9.9%	23.1%	59.5%	61.0%		61.7%	39.9%	32.7%
S,G&A	5,878	7,194	8,865	11,810	4,000	13,600	17,500	22,000
% of Revenue	38.7%	41.0%	47.5%	59.9%		67.2%	50.7%	40.0%
Operating Expenses	7,385	11,236	19,971	23,836	7,250	26,100	31,250	40,000
% of Revenue	48.7%	64.1%	107.0%	121.0%	145.0%	128.9%	90.6%	72.7%
Operating Income	(1,136)	(2,778)	(12,632)	(14,164)	(4,750)	(14,285)	(5,388)	9,500
% of Revenue						-70.5%	-15.6%	17.3%
Interest Expense	0	(120)	692	609	(225)	(1,350)	(1,000)	(800)
Depreciation	1,098	825	1,471	821	300	1,123	1,335	1,600
Writedowns	623	0	1	0	0	0	0	0
FX Loss	0	483	428	126	0	0	0	0
Stock Based Compensation	0	816	915	669	200	818	800	1,000
Other Expense	(263)	215	124	294	0	0	0	0
Pretax Income	(2,594)	(4,997)	(14,920)	(16,682)	(5,025)	(14,875)	(6,523)	7,700
% of Revenue			*-80.0%*	*-84.7%*	*-100.5%*	*-73.5%*	*-18.9%*	*14.0%*
Income Tax	(135)	(17)	131	316	0	0	0	0
Tax Rate			-0.9%	-1.9%	0.0%	0.0%	0.0%	0.0%
Net Income	(2,460)	(4,980)	(16,394)	(16,998)	(5,025)	(15,260)	(6,651)	7,700
						-75.4%	*-19.3%*	*14.0%*
Shares	40,000	54,477	67,618	94,182	119,493	152,781	153,256	154,000
Fully Diluted Shares	41,632	54,477	67,618	94,182	119,493	152,968	153,443	155,000
Proforma EPS (Ex Special Items)	**($0.06)**	**($0.09)**	**($0.24)**	**($0.18)**	**($0.04)**	**($0.10)**	**($0.04)**	**$0.05**
	($0.06)	**($0.09)**	**($0.24)**	**($0.18)**	**($0.04)**	**($0.10)**	**($0.04)**	**$0.05**

Source: Company, Paradigm Capital

Figure 18: Balance Sheet Statement

Intrinsyc Software International Inc.
January 30, 2008

Balance Sheet	2004	2005	2006	2007
(in C$ 000s)	Q4	Q4	Q4	Q4
Fiscal year end August 31st	Aug-04	Aug-05	Aug-06	Aug-07
Cash & Equivalents	4,601	7,318	22,487	19,629
Short-Term Investments	0	0	0	0
Accounts Receivable	4,329	3,910	3,790	3,081
Inventory	278	134	111	16
Prepaid Expenses	335	346	386	541
Total Current Assets	9,542	11,708	26,774	23,267
PP&E, Net	838	981	1,361	1,479
Goodwill	14,190	14,190	14,190	14,190
Intangible & Other	1,443	1,213	1,134	397
Total Assets	**26,013**	**28,091**	**43,458**	**39,333**
Accounts Payable	2,032	2,790	4,011	3,563
Income Tax Payable	95	263	219	423
Notes Payable	0	0	0	0
Deferred Revenue	646	837	543	703
Other	0	0	0	15
Total Current Liabilities	2,772	3,890	4,772	4,704
Other Long Term Liabilities	261	261	230	184
Note Payable	0	0	7,618	0
Total Long Term Liabilities	261	261	7,848	184
Total Liabilities	**3,034**	**4,152**	**12,620**	**4,889**
Total Equity	22,979	23,939	30,839	34,444
Total Liabilities & Equity	**26,012**	**28,091**	**43,458**	**39,333**

Source: Company, Paradigm Capital

Figure 19: Cash Flow Statement

Intrinsyc Software International Inc.
Statement of Changes in Financial Position
(C$000s, except per share amounts)

	Year end August 31				
	2006	**2007**	**2008e**	**2009e**	**2010e**
Cash Provided by (Used for):					
Operating					
Net Earnings	$(16,394)	$(16,998)	$(15,923)	$(6,951)	$7,300
Add/(Deduct) Items Not Affecting Cash:					
Writedowns On Investments	-	-	-	-	-
Other	(32)	(78)	(100)	(100)	(100)
Stock Based Compensation	915	669	800	1,000	1,250
Amortization	1,805	1,749	2,000	2,250	2,500
Changes in Non-cash Working Capital	$ 923	$ 471	$ 500	$ 750	$ 1,000
Cash Flow From Operations	**$(12,782)**	**$(14,187)**	**$(12,723)**	**$(3,051)**	**$11,950**
Financing					
Increase in Capital Leases	-	(2)	-	-	-
Increase in (Repayment of) Debt	6,956	(8,029)			
Issuance of Capital Stocks	21,779	19,935	-	-	-
Cash Flow From Financing	**$28,735**	**$11,905**	**$0**	**$0**	**$0**
Investments					
Sale (Purchase) of Marketable Sec. & ST Inv.	0	-	-	-	-
Net Purchase of Capital Assets	(785)	(575)	(750)	(750)	(1,000)
Cash Flow From Investing	**$(785)**	**$(575)**	**$(750)**	**$(750)**	**$(1,000)**
Foreign Exchange effect on cash					
Increase in Cash Position	**$15,169**	**$(2,858)**	**$(13,473)**	**$(3,801)**	**$10,950**
Cash Position, Begin. of Year	**$7,318**	**$22,487**	**$19,629**	**$6,157**	**$2,356**
Cash Position, End of Year	**$22,487**	**$19,629**	**$6,157**	**$2,356**	**$13,306**

Source: Company, Paradigm Capital

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1. Barry Richards does not have an ownership position in Intrinsyc Software International Inc. (ICS-T).
2. Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to Intrinsyc Software International Inc. (ICS-T) during the past 12 months.
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Research

Special Situations
Doug Cooper *(Head of Research)* (416) 363-5115

Biotech & Health Care
Claude Camiré (416) 360-1322

Energy Services
John Bereznicki, CFA (403) 513-1034

Entertainment
Corey Hammill (416) 361-0754

Gold and Precious Metals
Don MacLean (416) 360-3459

Don Blyth (416) 360-3461

Industrial Products
Marvin Wolff, CFA (416) 361-3376

Metals, Mining and Fertilizer
David Davidson (416) 360-3462

Jacob Willoughby (416) 361-9557

Oil & Gas
Dan Payne (403) 513-1032

Technology – Software/IT Services
Gabriel Leung (416) 361-6054

Technology – Hardware/Semiconductors
Daniel Kim (416) 363-6644

Technology – Wireless
Barry Richards (416) 364-4835

Research Associates
Alisa Beach (416) 360-3579
Marissa Caron (416) 364-9764
Jonathan Case, CFA (416) 363-9567
Sean Curtis (416) 360-1397

Research Assistant
Michael Lobodzinski (416) 363-6228

Offices

Toronto
95 Wellington St. W.,
Suite 2101, P.O. Box 55
Toronto, Ontario M5J 2N7
General Line (416) 361-9892
Fax (416) 361-6050

Calgary
Ford Tower
Suite 630, 633 6th Avenue SW
Calgary, Alberta T2P 2Y5
General Line (403) 513-1025
Fax (Research & Sales) (403) 265-8721

Sales

John Bellamy *(Head of Sales)* (416) 361-6032

David Roland (416) 216-6844

Kristina Bates, CA (416) 361-9698

John Cooke, CFA (416) 361-6053

Fabiene Evans, CA (416) 361-6056

Gabriel Ollivier, CFA (403) 513-1030

Robert Stabile, CFA (416) 361-1895

Peter Smiechowski, CFA (416) 361-5987

Trading

Clark Toews *(Head of Trading)* (416) 360-5129

Adam Deffett (416) 360-3578

Chris Glavin, CFA (416) 361-1901

Kevin Heffernan (416) 361-9752

Jonathan Hill (416) 361-9295

David Jarvis (416) 361-6030

Mervin Kopeck (416) 364-5451

Stock Rating System

Strong Buy: The stock is expected to appreciate and produce a total return of at least 10% over the next twelve months. This rating is used to highlight one or two stocks that our Analysts believe will outperform, from a risk-reward standpoint, all other companies in their respective coverage universes.
Buy: The stock is expected to appreciate and produce a total return of at least 10% over the next twelve months.
Hold: The stock is expected to provide returns of +/- 10% over the next twelve months.
Sell: The stock is expected to depreciate and produce a total return of -10% or less over the next twelve months