making mobility work

Intrinsyc Software International, Inc.

2006 Annual Report

Intrinsyc is a mobility software and services company. Our mobile software products, engineering services and systems integration expertise help customers deliver better products with lower development risk and faster time-to-market.

Intrinsyc is a widely-held public company traded on the Toronto Stock Exchange (symbol ICS). The company is headquartered in Vancouver, Canada and has development and business offices in Bellevue, USA; Birmingham, UK; Singapore; and Barbados.

TECHNICAL EXPERTISE FORMS FOUNDATION FOR GROWTH

Intrinsyc creates and licenses mobile and embedded software products and offers a complementary suite of server-based interoperability software solutions. Through our in-depth understanding of platforms and telephony we are considered by Microsoft to be one of the top systems integrators in the world. We are also systems integrators for Symbian OS, Java and Linux-based technologies.

INNOVATIVE TECHNOLOGY ADDRESSES HIGH PRIORITY MARKET NEED

Building on our 10 years experience in wireless systems integration, we began two years ago to develop a new software product which will address the large and growing consumer feature phone segment. Intrinsyc has developed Soleus™, the world's first feature phone software platform based on Microsoft's Windows® CE operating system. Soleus™ provides a turnkey development platform that takes a modular approach to configuring handset software. The result for customers and partners is a solution optimized for use in designing and developing feature-rich consumer oriented feature phone mobile handsets.

CONTINUED COMMITMENT TO CUSTOMERS DELIVERS RESULTS

Intrinsyc has long standing relationships with global technology leaders such as Microsoft, Intel Corporation, Texas Instruments and Freescale and great customers like British Telecom, Motorola, Nextel, Orange, Road Angel, Samsung and Siemens. Our customers continue to work with us due to the quality of our work and the excellence of our people.

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Our products and services enable our customers and partners to build devices that make mobility work

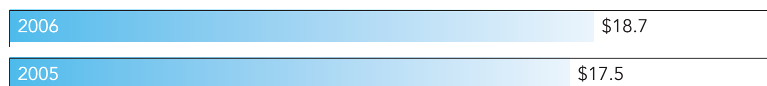
2006 ACHIEVEMENTS

- Soleus™, the world's first Microsoft Windows® CE based software platform for consumer feature phones, is announced and demonstrated at the 3GSM World Congress 2006
- Named Freescale Partner Software Solution 2006 at Freescale Technology Forum
- $32 million raised in two successful financings to support mobile products business
- Wistron Corporation licenses Soleus™ as a software platform for the development of mid-tier mobile phones
- Cellon International and Ginwave Technologies sign memorandums of understanding to evaluate Soleus™ for use in custom feature phone designs
- Partnership with ARM reduces power consumption by 58% to smartphone and portable devices
- Revenue growth of 6% over the prior year

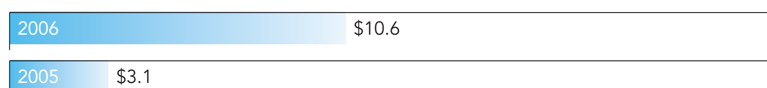
CAPABILITY AND OPPORTUNITIES

- Expertise in handheld device development enabling sophisticated power management, complex radio interfaces and small form factor board support packages
- Top tier customer alliances strengthen ability to deliver innovative technology solutions for the feature phone market
- Growing unit sales of feature phone handsets around the world with particular focus in Asia
- Consumers demand mobile products with rich features in a simple user interface
- Increased contribution with improved gross margins from new business initiatives (Asia, Soleus™)
- Growth in Soleus™ design wins increases opportunity for engineering services business

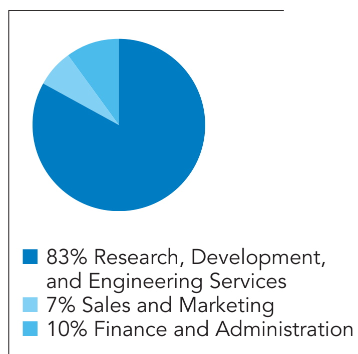
TOTAL REVENUE
(in millions of dollars)



SOLEUS™ R&D INVESTMENT
(in millions of dollars)



EMPLOYEES
(by function, as a percentage)



- 2006 was a year of transformation. Through our actions we have successfully positioned Intrinsyc for future growth.

- Our vision is to become the leading enabler of next generation handheld products.

- We plan to achieve this goal by helping service providers and equipment manufacturers bring consumers the latest in feature phones for the 3G world and providing systems integration and software services to help our customers deliver the best handheld products to the market.

Dear Fellow Shareholders

Over the past year Intrinsyc has continued to build a strong foundation for a successful future.

When I joined Intrinsyc as Chairman and CEO in July 2006 it was based on a belief that the business had the necessary technical depth, a solid engineering services track record with handheld equipment manufacturers, and the right time-to-market for the Soleus™ software platform. After only a few months my original assumptions have become clear conclusions. Intrinsyc has built the necessary capabilities and products over the past year to achieve solid growth for the future.

The world is becoming wireless and as service providers deploy 3G networks, there will be an exceptional amount of bandwidth available to fuel new consumer services. These services need to be enabled on lower cost, feature-rich consumer phones that use a high level operating system in order to manage the complexity of many applications and functions. Intrinsyc is ideally positioned to capture growth from this market situation through both our engineering operation that designs and enables a broad range of handheld products across all operating systems and our software development group that is delivering Soleus™ to market at the right time. With handset manufacturers looking for solutions to lower R&D costs and accelerate their ability to release new products quickly, we believe Soleus™ will offer the right solution for them and their service provider customers who wish to increase brand loyalty with their own unique user interface. Soleus™ has the flexibility and functionality delivered at the right time-to-market to address these market issues.

In reviewing 2006, we have made significant progress in both our engineering services and mobile products businesses. The engineering services operation has grown its Windows Mobile® and Symbian systems integration business. The mobile products group completed milestone four, the final preproduction release of Soleus™, on schedule which demonstrated the functionality of Soleus™ for our prospective customers. Our development group is on track to deliver the last release of Soleus™ 1.0 on time by the end of the calendar year. This final release to manufacturers is the version which will come to market in 2007. In this past year, we also secured the first licensee agreement for Soleus™ with Wistron Corporation and began technical evaluations with a number of other companies. 2006 has given us a good base to begin building, but we recognize we must execute effectively in both businesses and have a strong customer go-to-market plan for Soleus™ to achieve results.

We believe that attaining market success in the highly competitive mobile software industry requires an experienced leadership team focused on delivering business results. Intrinsyc has a solid management team which was further strengthened with the recent addition of Mark Johnston, a 22-year Intel Corporation veteran and industry expert in wireless and communications products and technologies. Mark will lead our worldwide sales and technical marketing operation.

Our main goal for 2007 will be to bring the Soleus™ product to market with multiple equipment manufacturers and to continue to grow our engineering services business in our existing regions of North America and Europe, as well as expand the business into Asian markets where a majority of the mobility platforms are developed worldwide.

We have much work to do; however I believe we are on the verge of a substantial growth opportunity and upon execution we will be positioned to capture a strong share of this growth.

Our expertise in mobility technology is our foundation for growth.

For more than 10 years, Intrinsyc has been developing its expertise in power management, radio interface layer and board support packages for mobility products. That expertise combined with our business knowledge and intellectual property provides the means required to develop value-added software products for the handheld segment. With two years of Soleus™ product development completed, Intrinsyc is now positioned to generate revenues from licensing fees and royalties, which will strengthen our balance sheet and improve shareholder value.

Soleus™ is well positioned to address a high priority market need.

Intrinsyc has technical expertise developing many types of handheld devices; however the high volumes and strong growth in the global handset industry have trained our attention on an opportunity in the burgeoning feature phone segment. We believe manufacturers of feature phones can take advantage of Windows® CE's flexibility and cost advantages to meet consumer demands.

Today only a small percentage of feature phones use a standard high level operating system such as Soleus™. The rest are housed on home-grown or tiny real-time operating systems built for an earlier generation of micro-processors. Handset manufacturers face growing pressure not only to increase the number of designs they bring to market, but also to bring those designs to market faster. Older operating systems and tools have not kept pace with the mounting demands of the next generation of feature phones.

We believe the market for feature phones will continue to achieve significant growth but success requires, among other things, that handset manufacturers provide consumers with innovative designs, within an ever shrinking time-to-market framework, while simultaneously keeping their bill-of-materials and engineering costs to a minimum.

SOLEUS™ IS THE LATEST ADDITION TO INTRINSYC'S LINE OF INNOVATIVE WIRELESS AND EMBEDDED SOFTWARE PRODUCTS

We have drawn upon our experience as a successful embedded Windows developer in the creation of Soleus™, the world's first Windows® CE-based software platform for feature phones. Soleus™ offers a new approach to developing phones, providing a set of modular software components that can be deployed across multiple handset designs. This allows handset manufacturers to reduce development costs and bring phones to market faster than legacy mobile phone software.

For those reasons handset manufacturers are retooling to keep up with new demands, and they are carefully evaluating future platforms and software tools. We believe that high level operating systems are the answer and through their adoption manufacturers can reduce development costs and achieve better product line scalability than with legacy mobile phone software.

Soleus™ offers a new approach to developing phones, providing a set of modular software components that can be deployed across multiple handset designs, allowing manufacturers to bring different designs to market quickly. It provides mobile phone manufacturers with a more flexible alternative to other operating systems, allowing them to more easily provide customization and branding functionality.

Intrinsyc brings strong company values to our business that will enable our success.

In August we developed a new set of company principles for all employees that will guide our actions to achieve our business objectives based on a core set of goals and values. Our intention is to build a company with a strong foundation of technology skills and a clear focus on goals executed through solid values and strong business acumen.

The goals we have committed to are:
- Satisfying our Customers;
- Delivering Business Results As Planned; and
- Creating Shareholder Value.

Our values are Results Orientation, Teamwork, Respectful Work Place, Meritocracy and Innovation. These fundamentals will be applied in our daily activities and reflect the way we will grow as a company.

In closing I would like to thank everyone at Intrinsyc for their commitment to building the company. We firmly believe Intrinsyc has the best technology and the right strategy to succeed, and our leadership team remains singularly focused on revenue growth and creating shareholder value.

Randy Kath
Chief Technology Officer and VP Mobile Products Group

We remain confident that our future is bright and that over time all of our stakeholders will be rewarded for their ongoing commitment to Intrinsyc.

Sincerely,

Glenda M. Dorchak

Chairman and Chief Executive Officer
Intrinsyc Software International, Inc.

AS A SYSTEMS INTEGRATOR, INTRINSYC HAS OVER 10 YEARS EXPERIENCE HELPING CUSTOMERS BRING LEADING-EDGE WIRELESS, MOBILE AND EMBEDDED DEVICES TO MARKET

Through our engineering services group, we provide handset manufacturers with the tools to reduce time to market, project risks, and development costs for mobile and embedded devices. We provide unique software, hardware, and systems integration products and services that enable companies to create, network and manage specialized, intelligent mobile and embedded devices. Our development platforms and reference designs can be customized to meet exact project requirements or they can be used off-the-shelf for rapid deployment. We have established long-standing relationships and partnerships with the leaders in the mobile handset supply chain.

FINANCIAL HIGHLIGHTS

Years ended August 31 (all amounts in Canadian dollars and in accordance with Canadian GAAP)

OPERATIONS

	2006	2005
Revenue	$ 18,657,717	$ 17,539,105
Cost of sales	11,318,054	9,080,999
	7,339,663	8,458,106
Administration	5,407,944	4,185,208
Marketing and sales	3,456,723	3,008,441
Research and development	10,969,692	4,042,779
Technology Partnerships Canada Funding Investment	260,905	214,652
Foreign exchange loss	428,220	482,657
EBITDA[1] loss	$ 13,183,821	$ 3,475,631
Amortization	1,061,174	825,150
Stock-based compensation	915,115	816,214
Loss on disposal of equipment	671	–
Interest income	(551,785)	(119,830)
Accretion and amortization – long-term debt	744,098	–
Interest expense – long-term debt	909,590	–
Income tax expense (recovery)		
Current	202,929	77,424
Future	(72,279)	(94,608)
Loss under Canadian GAAP	$ 16,393,334	$ 4,979,981

FINANCIAL POSITION

	2006	2005
Cash and cash equivalents	$ 22,487,076	$ 7,318,210
Total assets	43,458,429	28,090,521
Total liabilities	12,619,570	4,151,538
Shareholders' equity	$ 30,838,859	$ 23,938,983

[1] EBITDA 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. EBITDA is defined as earnings before interest, tax, depreciation and amortization.

November 8, 2006

This management's discussion and analysis covers the audited annual consolidated financial statements of Intrinsyc Software International, Inc. (the "Company") as at, and for the three and twelve month periods ended August 31, 2006. 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.

Special Note Regarding Forward-Looking Statements

The following discussion and analysis of the financial conditions and results of operations contains forward-looking statements concerning anticipated developments in the Company's operations in future periods, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimates," "predicts," "potential," "targeted," "plans," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, expected activities and expenditures as the Company pursues its business plan, the adequacy of the Company's available cash resources and other statements about future events or results. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, such as business and economic risks and uncertainties. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change. Consequently, all forward-looking statements made in this discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. Some of these risks, uncertainties and other factors are described herein under the heading "Risks and Uncertainties" and in the most recent Annual Information Form under the heading "Risk Factors". The Company disclaims any intent or obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Overview

Fiscal 2006 – Statement of Operations

Comparison of Fiscal 2006 and Fiscal 2005

	2006	2005	$ Change	Percentage change
Revenue	$ 18,657,717	$ 17,539,105	1,118,612	6.4%
Gross margin	7,339,663	8,458,106	(1,118,443)	(13.2%)
Gross margin percentage	39%	48%	–	–
Administration	5,407,944	4,185,208	(1,222,736)	(29.2%)
Marketing and sales	3,456,723	3,008,441	(448,282)	(14.9%)
Research and development - Soleus development	10,561,169	3,050,093	(7,511,076)	(246.3%)
Other research and development	408,523	992,686	584,163	58.8%
Amortization	1,061,174	825,150	(236,024)	(28.6%)
Stock-based compensation	915,115	816,214	(98,901)	(12.1%)
Technology Partnerships Canada Funding Investment	260,905	214,652	(46,253)	(21.5%)
Total operating expenses	22,071,553	13,092,444	(8,979,109)	(68.6%)
Foreign exchange loss	428,220	482,657	54,437	11.3%
Loss on disposal of equipment	671	–	(671)	–
Interest Income	(551,785)	(119,830)	431,955	360.5%
Accretion and amortization - long-term debt	744,098	–	(744,098)	–
Interest expense - long-term debt	909,590	–	(909,590)	–
Income tax expense (recovery)	130,650	(17,184)	(147,834)	(860.3%)
Loss	$ 16,393,334	$ 4,979,981	(11,413,353)	(229.2%)
Loss per share	$ 0.24	$ 0.09	(0.15)	(166.7%)

Overall, the increase in the loss for fiscal 2006, compared to the loss for fiscal 2005, was substantially caused by the following:

- The increase in spending on research and development was due to the ongoing support of Soleus, the Company's new mobile handset platform based on Windows CE.
- The weakening value of the US dollar relative to the Canadian dollar decreased revenue in fiscal 2006 by approximately 7%, or $1.2 million, relative to Canadian dollar revenues in fiscal 2005. In spite of the foreign exchange impact the Company managed to grow revenue by approximately 6.4% due to the increase in the value and volume of Engineering Services contracts it performed during the year.
- The reduction in gross margin percentage was partially due to the US dollar exchange rate differences discussed above. In addition only 10% of total revenue is related to software, which has gross margins in excess of 80%. In fiscal 2005, software revenue was 15% of total revenue. Lastly, the Company experienced technical challenges and increased execution costs related to fixed fee Engineering Services contracts during the current year due to complex new operating system software and semiconductor technology.
- The increase in administration expenses was largely due to increased costs required to support growth in headcount within the Engineering Services and Soleus development groups, particularly relating to compensation, training, consulting, rent and other office expenses. In addition, legal and intellectual property costs increased as the Company established business operations in Asia and a framework for protecting its intellectual property.
- The increase in marketing and sales costs was due to increased sales and marketing activities to support the Soleus product.

- As the Company entered into debenture agreements totalling $8.0 million during the year, accretion and amortization costs of approximately $744,000 and interest costs of approximately $909,000 were incurred during the year. Comparable costs to these were not incurred in fiscal 2005.
- The increase in interest income was due to interest being earned on the cash balances resulting from the significant financing activities that occurred during 2006.
- The increase in income tax expense was the result of the Company incurring taxable income from research and development services provided by one of its subsidiaries.

Fourth Quarter Fiscal 2006 – Statement of Operations

Comparison of Fourth Quarter Fiscal 2006 and Fourth Quarter Fiscal 2005

	Q4 2006	Q4 2005	$ Change	Percentage change
Revenue	$ 4,923,932	$ 5,412,588	(488,656)	(9.0%)
Gross margin	2,298,852	2,751,235	(452,383)	(16.4%)
Gross margin percentage	47%	51%	–	–
Administration	1,446,636	1,005,849	(440,787)	(43.8%)
Marketing and sales	865,986	737,677	(128,309)	(17.4%)
Research and development - Soleus development	3,583,546	1,375,266	(2,208,280)	(160.6%)
Other research and development	92,879	209,463	116,584	55.7%
Amortization	192,207	196,891	4,684	2.4%
Stock-based compensation	158,054	241,694	83,640	34.6%
Technology Partnerships Canada Funding investment	136,767	225,000	88,233	39.2%
Total operating expenses	6,476,075	3,991,840	(2,484,235)	(62.2%)
Foreign exchange gain (loss)	22,528	(288,758)	(311,286)	107.8%
Loss on disposal of equipment	671	–	(671)	–
Interest income	(234,313)	(29,642)	204,671	690.5%
Accretion and amortization - long-term debt	205,547	–	(205,547)	–
Interest expense - long-term debt	252,056	–	(252,056)	–
Income tax expense	50,959	35,384	(15,575)	(44.0%)
Loss	$ 4,429,615	$ 1,535,105	(2,894,510)	(188.6%)
Loss per share	$ 0.05	$ 0.03	(0.02)	(66.7%)

Overall, the increase in the loss for the fourth quarter of 2006, compared to the loss for the fourth quarter of 2005, was substantially the result of:

- A decrease in revenue was a result of $483,000 in revenue from two large sales in Enterprise Interoperability Solutions (EIS) that was realized in the fourth quarter of 2005. These sales were not repeated in the fourth quarter of 2006.
- Revenue was impacted negatively by foreign exchange. The weakening value of the US dollar relative to the Canadian dollar decreased revenue in the fourth quarter of fiscal 2006 by approximately 7%, or $345,000, relative to Canadian dollar revenues in fiscal 2005.
- The gross margin percentage remained consistent in the fourth quarter of fiscal 2006 compared to the fourth quarter of fiscal 2005 despite the change in revenue mix between hardware and services revenue. In the fourth quarter of fiscal 2006, 10% of total revenue was related to software, which has gross margin percentages in excess of 80%. In fiscal 2005, software revenue was 20% of total revenue. The impact of the change in revenue mix was offset by the recognition of $180,000 of revenue related work performed in prior periods. The delay in recognition resulted from the re-negotiation of contract terms for one particular project.

- Administrative spending increased due to higher salary and consulting costs as a result of the Company entering into a consulting agreement with the former CEO due to the change in leadership of the Company. Changes in staffing to support overall growth also increased administrative spending.
- Research and development spending increased in support of Soleus, the Company's new mobile handset platform based on Windows CE.

Fourth Quarter Fiscal 2006 – Statement of Operations

Comparison of Fourth Quarter Fiscal 2006 and Third Quarter Fiscal 2006

	Q4 2006	Q3 2006	$ Change	Percentage change
Revenue	$ 4,923,932	$ 4,388,609	535,323	12.2%
Gross margin	2,298,852	1,545,954	752,898	48.7%
Gross margin percentage	47%	35%	–	–
Administration	1,446,636	1,211,953	(234,683)	(19.4%)
Marketing and sales	865,986	899,821	33,835	3.8%
Research and development - Soleus development	3,583,546	2,929,574	(653,972)	(22.3%)
Other research and development	92,879	61,925	(30,954)	(50.0%)
Amortization	192,207	215,772	23,565	10.9%
Stock-based compensation	158,054	250,917	92,863	37.0%
Technology Partnerships Canada Funding Investment	136,767	122,965	(13,802)	(11.2%)
Total operating expenses	6,476,075	5,692,927	(783,148)	(13.8%)
Foreign exchange gain (loss)	22,528	(254,189)	(276,717)	108.9%
Loss on disposal of equipment	671	–	(671)	–
Interest income	(234,313)	(199,797)	34,516	17.3%
Accretion and amortization - long-term debt	205,547	204,568	(979)	(0.5%)
Interest expense - long-term debt	252,056	252,055	(1)	–
Income tax expense	50,959	46,904	(4,055)	(8.6%)
Loss	$ 4,429,615	$ 4,704,892	275,277	5.9%
Loss per share	$ 0.05	$ 0.06	0.01	16.7%

Overall, the decrease in the loss for the fourth quarter of fiscal 2006, compared to the loss for the third quarter of fiscal 2006, was the result of an increase in Engineering Services revenue and margins, and a reduction in foreign exchange losses. These changes were partially offset by the increase in Soleus-related research and development costs, and an increase in administration spending due to increased salary and consulting costs as a result of the Company entering into a consulting agreement with the former CEO due to the change in leadership of the Company. Changes in staffing to support overall growth also increased administrative expenses.

Gross margin increased in the fourth quarter of fiscal 2006, versus the third quarter of fiscal 2006, due to the recognition of $180,000 of revenue related work performed in prior periods. The delay in recognition resulted from the re-negotiation of contract terms for one particular project.

Administration expenses increased during the fourth quarter as a result of the Company entering into a consulting agreement with the former CEO.

The increase in the staff and temporary employees in the Soleus research and development group drove the majority of the increase in Soleus research and development expense. Staff working on Soleus has increased from two employees as at September 1, 2004 to 82 as at August 31, 2006. This change resulted in an increase in compensation costs as well as increases in rent and office costs.

The foreign exchange gain of $22,000 in the quarter improved from the $254,000 foreign exchange loss in the third quarter of 2006 due to the stability in value of the US dollar relative to the Canadian dollar during the quarter.

Fiscal 2006 – Cash Flows

Cash Flows Comparison of Fiscal 2006 and Fiscal 2005

Cash Provided by (used in):	2006	2005	$ Change
Operating activities	$ (12,781,512)	$ (1,669,123)	(11,112,389)
Investing activities	(784,969)	(737,191)	(47,778)
Financing activities	28,735,347	5,124,064	23,611,283
Increase in cash and cash equivalents	15,168,866	2,717,750	12,451,116

For fiscal 2006, operating activities consumed approximately $11.1 million more in cash compared to fiscal 2005 largely as a result of the expenditure on the development of Soleus, the Company's mobile handset platform.

Cash used in investing activities was consistent with fiscal 2005 and was largely the result of equipment additions required to support the growth in staff from 169 employees as at September 1, 2005 to 230 as at August 31, 2006.

The increase in cash provided by financing activities was the result of the Company completing a $24.1 million equity issuance and an $8.0 million debenture financing during the year. In fiscal 2005 the Company completed a $5.6 million rights offering.

Fourth Quarter Fiscal 2006 – Cash Flows

Comparison of Fourth Quarter Fiscal 2006 and Fourth Quarter Fiscal 2005

Cash Provided by (used in):	Q4 2006	Q4 2005	$ Change
Operating activities	$ (3,823,715)	$ 40,227	(3,863,942)
Investing activities	(106,587)	4,687,451	(4,794,038)
Financing activities	(19,126)	–	(19,126)
Increase (decrease) in cash and cash equivalents	$ (3,949,428)	$ 4,727,678	(8,677,106)

The Company ended the fourth quarter of fiscal 2006 with cash and cash equivalents and short-term deposits totalling $22.5 million, as compared to $7.3 million at the end of fiscal 2005.

The increase in cash used in operating activities primarily related to spending on the Soleus development which increased by approximately $2.2 million in the fourth quarter.

Investing activities in the current quarter related to the purchase of equipment.

Three Year Consolidated Financial Information

$Millions		2006		2005		2004
Revenue	$	18.6	$	17.5	$	15.2
Loss		16.4		5.0		(3.0)
Loss per share		(0.24)		(0.09)		(0.07)
Total assets		43.4		28.1		26.0

RESULTS OF OPERATIONS

Revenues

Fiscal 2006

Comparison of Fiscal 2006 and Fiscal 2005

	2006	Percentage of total revenue	2005	Percentage of total revenue	$ Change	Percentage change
Hardware revenue	$ 1,887,058	10.1%	$ 1,944,910	11.1%	(57,852)	(3.0%)
Software revenue	1,832,282	9.8%	2,670,154	15.2%	(837,872)	(31.4%)
Services revenue	14,938,377	80.1%	12,924,041	73.7%	2,014,336	15.6%
Total revenue	$18,657,717	100.0%	$17,539,105	100.0%	1,118,612	6.4%

Hardware revenues for fiscal 2006, compared to fiscal 2005, decreased marginally as a result of the Company's focus on software development of Soleus and services activities. Software revenue for fiscal 2006, compared to fiscal 2005, decreased as the volume and size of interoperability software product transactions declined in the year due to the maturation of the markets into which the Company sells this software. The increase in fiscal 2006 in service revenue, compared to fiscal 2005, was attributed to successfully securing and executing projects focusing on mobility opportunities, with both existing customers and new strategic customers. Also, the revenue from two large service contracts with major customers increased during the year.

The weakening value of US dollar relative to the Canadian dollar decreased revenue in fiscal 2006 by approximately 7%, or $1.2 million relative to what the Canadian dollar revenues would have been if the value of the US dollar had remained unchanged relative to the Canadian dollar's value throughout fiscal 2006. The Company hedges approximately 60% to 80% of its net monthly US dollar inflows against the Canadian dollar. The Company's British pound exposure is naturally hedged by its UK operating costs.

There were two significant customers that accounted for 31% of revenue (18% and 13%, respectively) in the fourth quarter of fiscal 2006 and 28% (17% and 11%, respectively) of fiscal 2006 revenue. In the fourth quarter of fiscal 2005, there were three significant customers that accounted for 38% (15%, 13% and 10%, respectively) of revenue and 43% (14%, 11% and 18%, respectively) of fiscal 2005 revenue.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Fourth Quarter Fiscal 2005

	Q4 2006	Percentage of total revenue	Q4 2005	Percentage of total revenue	$ Change	Percentage change
Hardware revenue	$ 389,379	7.9%	$ 737,934	13.6%	(348,555)	(47.2%)
Software revenue	477,012	9.7%	1,064,410	19.7%	(587,398)	(55.2%)
Services revenue	4,057,541	82.4%	3,610,244	66.7%	447,297	12.4%
Total revenue	$ 4,923,932	100.0%	$ 5,412,588	100.0%	(488,656)	(9.0%)

In the fourth quarter of fiscal 2006 both hardware and software revenues were significantly lower than the fourth quarter of 2005. This change was due to several large sales that occurred in the fourth quarter of 2005 that did not repeat in the fourth quarter of 2006.

Services revenues for the fourth quarter of 2006 were significantly higher than the fourth quarter of 2005 as the Company was able to bill and recognize approximately $180,000 of revenue in the quarter relating to service performed in the third quarter. The amounts were not billed in the third quarter as contract terms were being renegotiated. In general the growth in services revenues was the result of the Company successfully securing and executing services projects focusing on mobility opportunities.

Revenue was also affected by foreign exchange. The weakening value of the US dollar relative to the Canadian dollar decreased revenue in the fourth quarter of fiscal 2006 by approximately 7%, or $345,000, relative to what the Canadian dollar revenues would have been if the value of the US dollar would have remained unchanged relative to the Canadian dollar's value in the fourth quarter of fiscal 2005.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Third Quarter Fiscal 2006

	Q4 2006	Percentage of total revenue	Q3 2006	Percentage of total revenue	$ Change	Percentage change
Hardware revenue	$ 389,379	7.9%	$ 357,139	8.1%	32,240	9.0%
Software revenue	477,012	9.7%	438,761	10.0%	38,251	8.7%
Services revenue	4,057,541	82.4%	3,592,709	81.9%	464,832	12.9%
Total revenue	$ 4,923,932	100.0%	$ 4,388,609	100.0%	535,323	12.2%

Hardware and software revenues in the fourth quarter of fiscal 2006 were both marginally higher than in the third quarter of 2006. These fluctuations are considered to be within the normal range of variances and were the result of timing of shipments and order bookings.

The increase in services revenues as previously noted was the result of the Company's ability to recognize approximately $180,000 of revenue in the fourth quarter for work performed in the third quarter of 2006.

Gross Margins

Gross margin percentages on licensing revenue of approximately 80% to 85% are significantly higher than the gross margin percentages obtained on services revenue of 30% to 40%. As a result, the overall gross margin percentage was a blend of these margins that is weighted towards the services gross margin percentage.

Fiscal 2006

Comparison of Fiscal 2006 and Fiscal 2005

	2006	2005	$ Change	Percentage change
Gross margin	$ 7,339,663	$ 8,458,106	(1,118,443)	(13.2%)
Gross margin percentage	39%	48%	–	–

The decrease in gross margins in fiscal 2006, compared to fiscal 2005, was partially due to the US dollar exchange rate differences discussed above. In addition, only 10% of total revenue was related to software sales, which have gross margin percentages in excess of 80%. In fiscal 2005, software revenue was 15% of total revenue. Lastly, the Company experienced technical challenges and increased execution costs related to fixed fee Engineering Services contracts during the current year due to complex new operating system software and semiconductor technology.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Fourth Quarter Fiscal 2005

	Q4 2006	Q4 2005	$ Change	Percentage change
Gross margin	$ 2,298,852	$ 2,751,235	(452,383)	(16.4%)
Gross margin percentage	47%	51%	–	–

The gross margin and gross margin percentage in the fourth quarter of fiscal 2006, compared to the fourth quarter of fiscal 2005, decreased partially due to the weakening in the value of US dollar relative to the Canadian dollar discussed above. In addition, the change in the mix of software and services revenue had a significant impact. Software sales, which have gross margin percentages in excess of 80%, made up 10% of revenue in the fourth quarter of fiscal 2006. In the fourth quarter of fiscal 2005, software revenue was 20% of total revenue.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Third Quarter Fiscal 2006

	Q4 2006	Q3 2006	$ Change	Percentage change
Gross margin	$ 2,298,852	$ 1,545,954	752,898	48.7%
Gross margin percentage	47%	35%	–	–

The increase in gross margin in the fourth quarter of fiscal 2006, compared to the third quarter of fiscal 2006, was due to $180,000 of revenue recognized in the fourth quarter for work completed in the third quarter as discussed above. The revenue recognized in the fourth quarter as opposed to the third quarter was responsible for $360,000 or approximately 48% of the improvements in margins during the fourth quarter.

Marketing and Sales Expenses

Fiscal 2006

Comparison of Fiscal 2006 and Fiscal 2005

	2006	2005	$ Change	Percentage change
Marketing and sales	$ 3,456,723	$ 3,008,441	(448,282)	(14.9%)

The increase in marketing and sales costs was due to the increase in sales activity and revenue. Salaries and variable compensation expenses increased by $415,000. Additionally, there was also an increase of approximately $50,000 in tradeshow expenses during the year in support of the Soleus product launch.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Fourth Quarter Fiscal 2005

	Q4 2006	Q4 2005	$ Change	Percentage change
Marketing and sales	$ 865,986	$ 737,677	(128,309)	(17.4%)

The increase in marketing and sales costs in the fourth quarter of 2006 as compared to the fourth quarter of 2005 was due to salary and related travel costs associated with more resources devoted to the Soleus product.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Third Quarter Fiscal 2006

	Q4 2006	Q3 2006	$ Change	Percentage change
Marketing and sales	$ 865,986	$ 899,821	33,835	3.8%

Marketing and sales costs in the fourth quarter were consistent with those in the third quarter as there were no significant staffing or operational changes completed in the fourth quarter that would lead to significant cost variations.

Research and Development

Fiscal 2006

Comparison of Fiscal 2006 and Fiscal 2005

	2006	2005	$ Change	Percentage
Research and development - Soleus	$ 10,561,169	$ 3,050,093	(7,511,076)	(246.3%)
Other research and development	408,523	992,686	584,163	58.8%
Total research and development	$ 10,969,692	$ 4,042,779	(6,926,913)	(171.3%)

The increase in research and development spending in fiscal 2006, compared to fiscal 2005, was due to significant efforts made in 2006 relating to the development of the Soleus mobile handset platform. This increase was partially offset by a partial reduction in research and development spending on the Company's hardware and interoperability software products. Selected members of the Vancouver research and development team are now also working on the development of Soleus and are no longer working on the Company's hardware and interoperability software products. The level of spending on hardware and interoperability products continues to be sufficient to maintain the marketability of current offerings. The Company expects to continue to increase its spending on the development of Soleus in fiscal 2007.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Fourth Quarter Fiscal 2005

	Q4 2006	Q4 2005	$ Change	Percentage change
Research and development - Soleus	$ 3,583,546	$ 1,375,266	(2,208,280)	(160.6%)
Other research and development	92,879	209,463	116,584	55.7%
Total research and development	$ 3,676,425	$ 1,584,729	(2,091,696)	(132.0%)

Research and development spending increased in the fourth quarter of fiscal 2006, compared to the fourth quarter of fiscal 2005, due to the higher level of development of the Company's Soleus mobile handset platform. Reductions in other research and development spending are discussed above.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Third Quarter Fiscal 2006

	Q4 F2006	Q3 F2006	$ Change	Percentage change
Research and development - Soleus	$ 3,583,546	$ 2,929,574	(653,972)	(22.3%)
Other research and development	92,879	61,925	(30,954)	(50.0%)
Total research and development	$ 3,676,425	$ 2,991,499	(684,926)	(22.9%)

Research and development spending increased in the fourth quarter of fiscal 2006, compared to the third quarter of fiscal 2006, due to higher salaries and benefits costs resulting from increased staffing relating to the Soleus mobile handset platform.

Administration Expenses

Fiscal 2006

Comparison of Fiscal 2006 and Fiscal 2005

	2006	2005	$ Change	Percentage change
Administration	$ 5,407,944	$ 4,185,208	(1,222,736)	(29.2%)

Administrative costs increased in fiscal 2006, compared to fiscal 2005, due to a number of activities associated with the development of the Soleus product and the increase in services revenue. The Company increased its legal staffing and spending, costing approximately $100,000, in order to establish both contract and intellectual property protection frameworks for the Soleus product. In addition, the Company spent approximately $127,000 on the investigation and establishment of business operations in Asian jurisdictions. The growth in the engineering services business also resulted in approximately $300,000 in training expenses related to the integration of new staff. There were increased consulting fees as a result of the Company entering into a consulting agreement with the former CEO due to the change in leadership of the Company. Changes in staffing to support overall growth also increased administrative spending. Salary and consulting related costs in the fourth quarter of 2006 were approximately $385,000 higher than in the fourth quarter of 2005.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Fourth Quarter Fiscal 2005

	Q4 2006	Q4 2005	$ Change	Percentage change
Administration	$ 1,446,636	$ 1,005,849	(440,787)	(43.8%)

In the fourth quarter of fiscal 2006, there were consulting costs resulting from the change in the leadership of the Company as well as changes to staffing to support overall growth. Salary and consulting-related costs in the fourth quarter of 2006 were approximately $385,000 higher than in the fourth quarter of 2005.

Fourth Quarter Fiscal 2006

Comparison of Fourth Quarter Fiscal 2006 and Third Quarter Fiscal 2006

	Q4 2006	Q3 2006	$ Change	Percentage change
Administration	$ 1,446,636	$ 1,211,953	(234,683)	(19.4%)

In the fourth quarter of fiscal 2006, compared to the third quarter of fiscal 2006, administrative expenses increased by $235,000 due to the realignment of the leadership in the Company. As a result, salary and consulting-related expenses increased by $285,000. This increase was partially offset by a decline in bad debts expense of $53,000 as the Company reversed allowances for bad debts on successful collection of outstanding receivables that had previously been considered uncollectible. Additionally there was a decrease in investor relations costs of approximately $50,000 due to the Company increasingly performing this function in house.

Summary of Quarterly Results

$Millions	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Revenue	$ 4.9	$ 4.4	$ 4.8	$ 4.6	$ 5.4	$ 4.3	$ 4.2	$ 3.7
Loss	4.4	4.7	4.5	2.7	1.5	1.3	0.8	1.4
Loss per share	$ 0.05	$ 0.06	$ 0.08	$ 0.05	$ 0.03	$ 0.02	$ 0.01	$ 0.03

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

Liquidity and Capital Resources

The Company finances its operations and capital expenditures through cash generated from operations as well as equity and debt financings. As at August 31, 2006, Intrinsyc had cash and cash equivalents and short-term investments totalling $22.5 million, with working capital[(1)] of $22.0 million as compared to cash and cash equivalents of $7.3 million and working capital of $7.8 million as at August 31, 2005.

At August 31, 2006, the Company estimated that a Canadian $0.01 increase in the exchange rate of the Canadian dollar, relative to the U.S. dollar, would result in an approximate reduction of $66,000 on earnings before income tax for the quarter, and $55,000 for the twelve months ended August 31, 2006.

Cash Provided by (used in):	2006	2005	$ Change
Operating activities	$ (12,781,512)	$ (1,669,123)	(11,112,389)
Investing activities	(784,969)	(737,191)	(47,778)
Financing activities	28,735,347	5,124,064	23,611,283
Increase (decrease) in cash and cash equivalents	15,168,866	2,717,750	12,451,116

For fiscal 2006, operating activities consumed approximately $11.1 million more in cash compared to fiscal 2005 largely as a result of expenditures on the development of the Soleus mobile handset platform. Cash used in investing activities was consistent with fiscal 2005 and consisted mainly of equipment additions required to support the growth in the Company's staffing levels. The increase in cash provided by financing activities was the result of the public equity offering and the issuance of the debentures discussed below. In 2005, the cash generated by financing activities was a result of a public rights offering.

The public equity offering closed on March 30, 2006, and a total of 26,796,401 units were sold at an offering price of $0.90 per unit for gross proceeds of approximately $24.1 million with approximately $2.3 million of cash underwriters' fees and expenses resulting in net cash proceeds of $21.8 million. The units were divided into their constituent common shares and warrants upon closing, and as a result, an additional 26,796,401 common shares and 13,398,201 common share purchase warrants were issued by the Company on March 30, 2006. Each whole warrant entitles the holder thereof to purchase one common share at a price of $1.05 for a period of four years following the closing of the offering.

On October 3, 2005, the Company closed an $8.0 million debenture financing. The financing was by way of secured Debentures (the "Debentures") maturing on October 3, 2007, at which time the $8.0 million

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

will become due and payable. The maturity date may be extended by one year by the Company if the Company meets certain pre-determined financial targets and may also accelerate in certain circumstances including a default by the Company or in the event of a change of control of the Company. The Debentures have an annual interest rate of 12.5% with monthly payments of interest only until maturity, and are collateralized by a charge over all of the assets of the Company and its subsidiaries. Concurrent with the financing, the Company has issued 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. There were a total of $1.0 million of legal, professional and transaction fees associated with the debenture financing.

Cash Provided by (used in):	Q4 2006	Q4 2005	$ Change
Operating activities	$ (3,823,715)	$ 40,227	(3,863,942)
Investing activities	(106,587)	4,687,451	(4,794,038)
Financing activities	(19,126)	–	(19,126)
Increase (decrease) in cash and cash equivalents	$ (3,949,428)	$ 4,727,678	(8,677,106)

Cash used in operating activities increased by approximately $3.9 million as a result of increased spending on the development of the Soleus mobile handset platform, and a reduction in gross margins during year. The cash from investing activities decreased during the year as a result of certain financial instruments in 2006 which were considered to be cash since they were liquid. In 2005 those instruments were classified as short-term investments.

Contractual Obligations ($Millions)	Total	2007	2008	2009	2010	2011	2012
Operating lease obligations	$5.8	$1.2	$1.2	$1.3	$1.2	$0.5	$0.4

As set out in the audited annual consolidated financial statements as at, and for the twelve month periods ended August 31, 2006 and 2005, the Technology Partnerships Canada ("TPC") audit of the Company's TPC submissions is complete and the Company is currently negotiating an extension of its TPC agreement which expired in March, 2004. The outcome of these negotiations is not known or determinable at this time and accordingly no provision has been made. If the extension is granted by TPC the Company will be required to pay approximately $387,000 and the original terms and conditions will be amended. If the Company is found to be in default of its agreement with TPC, TPC can suspend or terminate any obligation and it can demand repayment of all or part of the contributions disbursed to the Company. To date the Company has received approximately $3.8 million in contributions from TPC and paid approximately $491,183 in royalties to TPC.

As at November 3, 2006 the Company had 83,043,369 common shares outstanding, 6,374,413 share options outstanding and 19,680,845 outstanding warrants.

On an ongoing basis the Company will continue to investigate various financing options, including additional financings, to fund any new development strategies or material operating shortfalls. These options may, or may not, transpire depending on the availability of funds under acceptable terms and conditions as well as the requirements that may, or may not, arise due to operating activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Intrinsyc prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions. Significant estimates include, but are not limited to, the determination of project expenditures for contracts accounted for on the percentage of completion basis, allowance for doubtful accounts, income tax valuation allowances, goodwill impairment tests, the useful lives and valuation of intangible assets, and stock-based compensation. The Company's significant accounting policies are described in Note 2 to the August 31, 2006 consolidated financial statements.

Revenue Recognition

The Company recognizes revenue from the sale of product and software licences upon transfer of title, which generally occurs on shipment, unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. Revenue from support obligations is deferred and recognized ratably over the period of the obligation. Revenue from consulting and other services is recorded as the services are performed if there is reasonable certainty as to collectibility.

Revenues from contracts with milestone payments are recognized using the percentage of completion method based on costs incurred relative to total estimated costs to complete. Changes in the contract price, total estimated costs, or estimated losses, if any, are included in the determination of estimated cumulative revenues and expenses in the period the change is determined by management.

Derivative Financial Instruments

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

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. Derivatives that are not subject to hedge accounting are recorded on the balance sheet with the changes in fair value being recorded in the statement of earnings each period. For the fourth quarter ended August 31, 2006, all derivative financial instruments met the criteria for hedge accounting.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be uncollectible. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, 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 tax assets and liabilities 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. The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year 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 when a change in tax rates is substantively enacted. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

Stock-based Compensation

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

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued to employees at the market value of the shares at the date of the grant. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options was recorded as share capital. The Company has previously disclosed the pro-forma effect of accounting for these awards under the fair value based method.

This change in accounting policy has been applied retroactively, and the amounts presented in the financial statements for prior periods have been restated for this change.

Foreign Exchange Forward Contracts

The Company uses foreign exchange forward contracts to hedge transactions denominated in United States dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements, most significantly in the United States. As at August 31, 2006 the Company had no outstanding forward exchange contracts to sell United States dollars.

RISKS AND UNCERTAINTIES

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

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

Ability to Meet the Obligations of Outstanding Debentures

The Company has outstanding secured debentures in the amount of $8.0 million maturing on October 3, 2007. The debentures have an annual interest rate of 12.5% with monthly payments of interest only until maturity, and are secured by a charge over all of the assets of The Company and its subsidiaries. Under the terms of the debentures, the Company must maintain a minimum cash balance of $2 million and tangible net assets in excess of $500,000. In the event that the Company is not able to meet its obligations under the debenture or raise capital to repay the debenture, the debenture holder has a right to all of the assets of the Company.

Additional Financing

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

Any equity offering will result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests.

Research and Development

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

Major Industry Software Vendor Partners May Become Competitors

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

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's revenue will continue to grow. As at August 31, 2006, the Company had an accumulated deficit of approximately $52.0 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operation results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable.

Stock Price Volatility

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

Dependence on Management

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

Product Development and Technological Change

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

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

Sales and Marketing and Strategic Alliances

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

The Company's strategic alliances with operating system vendors, semiconductor manufacturers, independent software vendors and systems integrators are a key part of the Company's overall business strategy. The Company cannot, however, be certain that it will be successful in developing new strategic relationships or that the Company's strategic partners will view such relationships as significant to their own business or that they will continue their commitment to the Company in the future. The Company's business, results of 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 relies on the voluntary efforts of its strategic partners rather than compliance with contractual obligations, and there are no minimum performance requirements. Therefore, the Company cannot be certain that these relationships will be successful.

Length of Sales Cycle

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

Intellectual Property Protection

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

Competition

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

International Expansion of Business Operations

The Company plans to increase international operations, including the possible establishment of a sales office and development centre in Asia, in the current fiscal year. International sales and the related infrastructure support operations carry certain risks and costs such as the administrative complexities and expenses of administering a business abroad; complications in both compliance with and also unexpected changes in regulatory requirements, foreign laws, international import and export legislation, trading policies, tariffs and other barriers; potentially adverse tax consequences; and uncertainties of law and

enforcement relating to the protection of intellectual property and unauthorized duplication of software. There can be no assurance that these factors will not be experienced in the future by the Company or that they will not have a material adverse impact on the Company's business, results of operations and financial 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 feature phones, as well as supporting applications, which will depend on many factors, including:

- the development of content and applications for mobile devices;
- the willingness of large numbers of consumers and businesses to use mobile devices such as feature phones, smartphones, PDAs, wireless gaming consoles, and other such specialized mobile devices such as set top boxes, handheld medical devices and industrial data collectors to perform functions currently carried out manually, by traditional PCs or by other electronic devises, including entertainment, personal communication, inputting and sharing data and connecting to the Internet; and
- the evolution of industry standards that facilitate the distribution of content over the Internet to these devices via wired and wireless telecommunications systems, satellite or cable.

Foreign Exchange Risk

A substantial portion of the Company's sales are denominated in United States dollars and are made to United States-based customers. Because the Company's operations are based in Canada and the United Kingdom, the Company is exposed to risks associated with fluctuations in the exchange rate between the United States dollar, the British pound and the Canadian dollar. If the Canadian dollar or British pound rise relative to the United States dollar, the Company's operating results may be adversely impacted. The Company has a foreign exchange hedging program that effectively hedges approximately 60% to 80% of its net monthly United States dollar receipts.

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on anticipated revenues and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Management of Growth

The Company's growth continues to place significant demands on its management and other resources. The Company's future results of operations will depend in part on the ability of its officers and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel.

Acquisitions

The Company has, and from time to time in the future may, acquire businesses, products or technologies that it believes complement or expand its existing business. Acquisitions of this type involve a number of

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

Product Liability

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

Shareholder Rights Plan

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. The Plan expires on December 6, 2006, and the Company intends to seek approval from shareholders to re-establish a Shareholder Rights Plan at the Company's 2006 Annual and Special General Meeting.

DISCLOSURE CONTROLS

The Company has established disclosure controls and procedures to ensure that information disclosed in the MD&A and the related financial statements was properly recorded, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer and Chief Financial Officer have evaluated and are satisfied with the effectiveness of the these disclosure controls and procedures for the period ending August 31, 2006.

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

OUTLOOK

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

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

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

MANAGEMENT'S RESPONSIBILITY

The management of Intrinsyc 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 non-management 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
October 16, 2006

Andrew Morden
Chief Financial Officer
October 16, 2006

AUDITORS' REPORT

To the Shareholders of
Intrinsyc Software International, Inc.

We have audited the consolidated balance sheets of Intrinsyc Software International, Inc. as at August 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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 August 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
October 16, 2006

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at August 31

	2006	2005
ASSETS		
Current		
Cash and cash equivalents [notes 3 and 4]	$ 22,487,076	$ 7,318,210
Accounts receivable [notes 5 and 17]	3,789,743	3,909,596
Inventory	110,996	134,318
Prepaid expenses - current	385,816	306,089
Total current assets	26,773,631	11,668,213
Prepaid expenses	61,769	39,673
Equipment [notes 6 and 17]	1,360,832	980,580
Goodwill [note 7[a]]	14,189,478	14,189,478
Intangible assets [note 7[b]]	556,120	1,212,577
Deferred financing costs [note 9]	516,599	—
Total assets	$ 43,458,429	$ 28,090,521
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 4,010,542	$ 2,790,071
Taxes payable	218,912	263,382
Deferred revenue	542,515	836,660
Total current liabilities	4,771,969	3,890,113
Debentures [note 9]	7,617,946	—
Future income taxes [note 12]	229,655	261,425
Total liabilities	$ 12,619,570	$ 4,151,538
Commitments and contingencies [notes 13 and 14]		
Shareholders' equity		
Share capital [note 10]	74,623,739	57,452,141
Warrants and underwriters' options [notes 9 and 10]	5,229,997	163,500
Contributed surplus [note 11]	2,951,875	1,896,760
Cumulative translation adjustment	(27,792)	(27,792)
Deficit	(51,938,960)	(35,545,626)
Total shareholders' equity	30,838,859	23,938,983
Total liabilities and shareholders' equity	$ 43,458,429	$ 28,090,521

See accompanying notes to consolidated financial statements

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended August 31

	2006	2005
Revenues [note 17]	$ 18,657,717	$ 17,539,105
Cost of sales	11,318,054	9,080,999
	7,339,663	8,458,106
Expenses		
Administration	5,407,944	4,185,208
Marketing and sales	3,456,723	3,008,441
Research and development	10,969,692	4,042,779
Amortization	1,061,174	825,150
Stock-based compensation [note 11]	915,115	816,214
Technology Partnerships Canada Funding Investment [note 13]	260,905	214,652
	22,071,553	13,092,444
Loss before other (earnings) expense and income taxes	14,731,890	4,634,338
Other expense (earnings)		
Foreign exchange loss [note 16]	428,220	482,657
Loss on disposal of equipment	671	—
Interest income	(551,785)	(119,830)
Accretion and amortization – long term debt [note 9]	744,098	—
Interest expense – long term debt [note 9]	909,590	—
	1,530,794	362,827
Loss before income taxes	16,262,684	4,997,165
Income tax expense (recovery) [note 12]		
Current	202,929	77,424
Future	(72,279)	(94,608)
	130,650	(17,184)
Loss for the year	$ 16,393,334	$ 4,979,981
Deficit, beginning of year	35,545,626	30,565,645
Deficit, end of year	$ 51,938,960	$ 35,545,626
Loss per share (basic and diluted)	$ 0.24	$ 0.09
Weighted average number of shares outstanding	67,618,153	54,477,377

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31

	2006	2005
OPERATING ACTIVITIES		
Loss for the year	$ (16,393,334)	$ (4,979,981)
Items not involving cash:		
Amortization	1,061,174	825,150
Future income taxes	(31,770)	(94,608)
Stock-based compensation [note 11]	915,115	816,214
Accretion and amortization – long term debt	744,098	—
Changes in non-cash operating working capital:		
Income taxes payable	(44,470)	133,640
Accounts receivable	119,853	(528,325)
Other receivable	—	947,374
Inventory	23,322	143,522
Prepaid expenses	(101,823)	(10,982)
Accounts payable and accrued liabilities	1,220,468	888,033
Deferred revenue	(294,145)	190,840
Cash used in operating activities	(12,781,512)	(1,669,123)
INVESTING ACTIVITIES		
Acquisition of intangible assets	—	(184,875)
Purchase of equipment	(784,969)	(552,316)
Cash used in investing activities	(784,969)	(737,191)
FINANCING ACTIVITIES		
Issuance of common shares and warrants [note 10]	24,123,936	5,632,671
Share issuance costs [note 10]	(2,344,984)	(508,607)
Debentures [note 9]	8,000,000	—
Debentures issuance costs [note 9]	(1,043,605)	—
Cash provided by financing activities	28,735,347	5,124,064
Increase in cash and cash equivalents	15,168,866	2,717,750
Cash and cash equivalents, beginning of year	7,318,210	4,600,460
Cash and cash equivalents, end of year	$ 22,487,076	$ 7,318,210
Supplementary information		
Interest paid	$ 903,749	$ 14,203
Interest received	$ 503,329	$ 132,035
Income taxes paid (recovered)	$ 117,630	$ (11,007)

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006 & 2005

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 mobility software and services company that specializes in providing smartphone 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.

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.

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 valued at cost plus interest earned.

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.

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

The Company expenses research and development costs as they are incurred.

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 life.

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 income 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 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 unit's 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 August 31, 2005 and August 31, 2006.

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.

Revenue recognition

The Company recognizes revenue from the sale of product and software licences upon transfer of title, which generally occurs on shipment, unless there are significant post-delivery obligations or collection is not considered probable at the time of sale. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. Revenue from support obligations is deferred and recognized ratably over the period of the obligation. Revenue from consulting and other services is recorded as the services are performed if there is reasonable certainty as to collectibility.

Revenues from contracts with milestone payments are recognized using the percentage of completion method based on costs incurred relative to total estimated costs to complete. Changes of the contract price, total estimated costs, or estimated losses, if any, are included in the determination of estimated cumulative revenues and expenses in the period the change is determined by management.

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.

Derivative financial instruments

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

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. Derivatives that are not subject to hedge accounting are recorded on the consolidated balance sheet with the changes in fair value being recorded in the consolidated statement of operations each period. For the year ended August 31, 2006, all derivative financial instruments met the criteria for hedge accounting.

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, net of income tax recoveries, of issuing the shares.

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 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 August 31, 2006, the Company has not recorded any such impairment losses.

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 deferred in a separate component of shareholders' equity ("Cumulative translation adjustment") until there is a realized reduction in the parent's net investment in the foreign operation.

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 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

In Canada, the Company has an operating line of credit for borrowings up to $1,000,000, bearing interest at prime rate. Prime rate was 6.00% at August 31, 2006 [2005 - 4.50%]. The line is collateralized by a $1,050,000 Guaranteed Investment Certificate of Deposit. There were no borrowings outstanding against the operating line of credit as at August 31, 2006 and 2005. The Company also has a US chequing account with an overdraft limit that is collateralized by restricted cash in the amount of $13,800 ($12,500 USD). There were no borrowings outstanding against the overdraft as at August 31, 2006.

4. Cash and Cash Equivalents

	2006	2005
Cash	$ 22,487,076	$ 2,309,178
Short-term deposit	—	5,009,032
	$ 22,487,076	$ 7,318,210

5. Accounts Receivable

	2006	2005
Trade and miscellaneous receivables	$ 3,129,351	$ 3,465,144
Unbilled revenue	660,392	444,452
	$ 3,789,743	$ 3,909,596

6. Equipment

	Cost	Accumulated amortization	Net book value
2006			
Computers and equipment	$ 2,358,083	$ 1,583,442	$ 774,641
Computer software	939,813	838,112	101,701
Furniture and fixtures	835,280	674,817	160,463
Leasehold improvements	654,419	330,392	324,027
	$ 4,787,595	$ 3,426,763	$ 1,360,832
2005			
Computers and equipment	1,984,900	1,359,523	625,377
Computer software	893,746	766,846	126,900
Furniture and fixtures	826,758	626,296	200,462
Leasehold improvements	332,244	304,403	27,841
	$ 4,037,648	$ 3,057,068	$ 980,580

The aggregate amortization expense for the year ended August 31, 2006 was $404,717 [2005 - $410,004].

7. Goodwill and Other Intangible Assets

[a] There were no changes to the goodwill balance during the years ended August 31, 2006 and August 31, 2005.

[b] Other intangible assets as at August 31, 2006 and 2005 were as follows:

	Gross carrying amount	Accumulated amortization	Total
2006			
Intellectual property	$ 3,336,679	$ 2,780,559	$ 556,120
Other intangible assets	274,080	274,080	—
	$ 3,610,759	$ 3,054,639	$ 556,120
2005			
Intellectual property	$ 3,336,679	$ 2,198,550	$ 1,138,129
Other intangible assets	274,080	199,632	74,448
	$ 3,610,759	$ 2,398,182	$ 1,212,577

The aggregate amortization expense for the year ended August 31, 2006 was $656,457 [2005 - $415,146] including the amortization of $196,000 of intellectual property costs in the year ended August 31, 2006 related to intellectual property that has been deemed to have no future benefit to the Company.

8. Employee Pension Contributions

	2006	2005
Benefit costs	$ 548,579	$ 339,477

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

9. 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, at which time the $8.0 million will become due and payable. The maturity date may be extended by one year by the Company if the Company meets certain pre-determined financial targets and may also accelerate in certain circumstances including a default by the Company or in the event of a change of control of the Company. The Company has the right to repay the Debentures in whole or in part at any time following such date which is six months from the date following the closing date (April 3, 2006), and subject to certain restrictions. The Debentures have an annual interest rate of 12.5% with monthly payments of interest only until maturity, and are collateralized by a charge over all of the assets of the Company and its subsidiaries. Under the terms of the debentures, the Company must maintain a minimum cash balance of $2 million and tangible net assets in excess of $500,000.

Concurrent with the financing, the Company has issued to Wellington Financial an aggregate of 3,870,968 warrants of the Company (the "Warrants"). Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.62 per share at any time prior to October 3, 2010.

The gross proceeds for the Debentures were allocated to the Debentures and the Warrants based on the relative fair value of each security at the time of issuance. Accordingly, $7,310,973 was allocated to the Debentures and $689,027 was allocated to the Warrants. The fair value of the Debentures was determined by discounting the expected future cash flows of the principal and interest payments using a discount rate of 19%, which, in management's opinion, approximates the market rate of interest for similar instruments, at the time of issue, without attached warrants.

The carrying value of the Debentures will be accreted to their face value over their life to maturity (October 3, 2007). For the year ended August 31, 2006, the Company recorded $306,973 [2005 – nil] as accretion expenses. The fair value of the Warrants recorded in shareholders' equity was determined using the Black-Scholes option pricing model.

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 are being amortized over the twenty-four month life to maturity of the Debentures. During the year ended August 31, 2006, the Company recorded $437,125 [2005 – nil] of amortization on the deferred financing costs.

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

	2006	2005
Non-cash accretion of debentures from carrying value to face value	$ 306,973	$ —
Non-cash amortization of debt financing charges	437,125	—
Total accretion and amortization	744,098	—
Cash interest expense	909,590	—
	$ 1,653,688	$ —

10. 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, 2004	44,986,975	$ 52,328,077
Shares issued in connection with October 2004 rights offering	11,246,743	5,124,064
Outstanding, August 31, 2005	56,233,718	57,452,141
Warrants exercised	—	23,500
Shares issued in connection with stock options exercised	13,250	7,175
Shares issued in connection with public offering	26,796,401	17,140,923
Outstanding, August 31, 2006	83,043,369	$ 74,623,739

The Company completed a rights offering for common shares on October 28, 2004 which was fully subscribed. The rights were exercised, resulting in the issuance of a total of 11,246,743 common shares on October 28, 2004, with gross proceeds amounting to $5,632,671 at $0.50 per common share. Net proceeds amounted to $5,124,064.

On March 2, 2006, the Company announced that it had entered into an agreement with a group of underwriters in connection with a public offering of units comprised of common shares and warrants to purchase common shares in the Company. The offering closed on March 30, 2006, and a total of 26,796,401 units were sold at an offering price of $0.90 per unit for gross proceeds of approximately $24,116,761 with approximately $2,344,984 of cash underwriters' fees and expenses resulting in net cash proceeds of $21,771,777.

The units were divided into their constituent common shares and warrants upon closing, and as a result, an additional 26,796,401 common shares and 13,398,201 common share purchase warrants were issued by the Company on March 30, 2006. Each whole warrant entitles the holder thereof to purchase one common share at a price of $1.05 for a period of four years following the closing of the offering. The warrants were valued at $4,084,584.

The underwriters received 1,607,784 compensation options ("underwriters' options"). This equates to 6% of the aggregate number of units sold under the offering. Each compensation option is exercisable to purchase one unit at the offering price for a period of two years following the closing date of March 30, 2006. The underwriters' options were valued at $546,270.

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

Net proceeds from the offering will be used to fund sales, marketing and research and development related to the Company's new Soleus mobile phone software platform, as well as for general corporate purposes.

Share option plan
Under the terms of the Company's employee share option plan, the Board of Directors may grant options to employees, officers and directors. The plan provides for the granting of options at the closing price of the Company's stock prior to the grant date. Options granted on or after May 11, 1999 and before April 5, 2001 generally vest over three years with the first 1/3 vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five year term. The Company has reserved 11,095,774 options for issuance under its employee share option plan, a total of 4,109,024 options have been exercised to date leaving a total of 6,986,750 options available for issuance of which 6,374,413 have been granted and are outstanding as at August 31, 2006.

A summary of the Company's share option activity for the years ended August 31, 2006 and 2005 is as follows:

	Outstanding options	
	Number of common shares	Weighted average exercise price $
Outstanding, August 31, 2004	4,694,906	1.57
Options granted	2,008,860	0.68
Options cancelled/expired	(1,970,793)	1.99
Outstanding, August 31, 2005	4,732,973	1.02
Options granted	2,913,030	0.93
Options exercised	(13,250)	0.54
Options cancelled/expired	(1,258,340)	1.29
Outstanding, August 31, 2006	6,374,413	0.97

The following table summarizes the share options outstanding at August 31, 2006:

	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
$ 0.49 - 0.80	2,026,288	3.34	$ 0.63	1,075,932	$ 0.59
$ 0.81 - 1.00	1,823,975	4.44	0.86	124,315	0.90
$ 1.00 - 1.50	2,151,525	2.78	1.18	1,313,823	1.14
$ 1.51 - 3.21	372,625	0.13	2.17	372,625	2.17
	6,374,413	3.27	0.97	2,886,695	1.06

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Years ended August 31,	
	2006	2005
Expected life (in years)	4.0	2.91
Risk-free interest rate	4.13%	2.99%
Volatility	52.2%	171.7%
Dividend yield	0.00%	0.00%

Warrants & Underwriters' Options

A summary of the Company's share purchase warrants and underwriters' options for the years ended August 31, 2006 and 2005 are as follows:

	Outstanding warrants		
	Number of warrants and underwriters' options	Weighted average exercise price	Amount
Outstanding, August 31, 2004 and 2005	100,000	$ 3.20	$ 163,500
Warrants [note 9]	3,870,968	0.62	599,143
Share capital reallocation		0.94	(23,500)
Warrants expired	(100,000)	3.20	(140,000)
Warrants	13,398,201	1.05	4,084,584
Underwriters' compensation options	1,607,784	0.90	391,711
Underwriters' compensation warrants	803,892	1.05	154,559
Outstanding, August 31, 2006	19,680,845	$ 0.95	$ 5,229,997

On January 26, 2006, 100,000 share purchase warrants valued at $140,000 expired and the value of the warrants was recorded as contributed surplus. The value of $23,500 relating to 25,000 share purchase warrants exercised in March 2004 has been recorded as an addition to share capital.

11. Contributed Surplus

	2006	2005
Contributed surplus – beginning of year	$ 1,896,760	$ 1,080,546
Warrants expired	140,000	—
Stock-based compensation expense	915,115	816,214
Contributed surplus – end of year	$ 2,951,875	$ 1,896,760

12. 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% [2005 - 35.6%] to loss before income taxes due to the following:

	2006	2005
Combined Canadian federal and provincial income taxes at expected rate	$ (5,545,575)	$ (1,778,423)
Change in valuation allowance	4,261,000	(4,134,217)
Permanent and other differences	1,030,983	582,751
Income recognized for tax, not for accounting purposes	(2,528,000)	5,400,534
Foreign income taxed at other rates	2,958,389	93,171
Costs of issuing equity	(830,000)	(181,000)
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	783,853	-
	$ 130,650	$ (17,184)

The composition of the Company's future tax assets and liabilities as at August 31, 2006 and 2005 is as follows:

	2006	2005
Future income tax assets:		
Equipment	$ 1,049,000	$ 888,000
Loss carry forwards	6,387,000	2,830,000
Share issue costs	775,000	204,000
SR&ED pool	1,134,000	744,000
Other	579,000	997,000
	9,924,000	5,663,000
Valuation allowance	(9,924,000)	(5,663,000)
Future income tax liability:		
Equipment	(62,655)	—
Intellectual property	(167,000)	(261,425)
Net future income tax liability	$ 229,655	$ 261,425

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 August 31, 2006, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately $18,592,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

2007	$ 2,213,000
2008	1,184,000
2009	3,683,000
2010	5,756,000
2014	1,114,000
2026	4,642,000
	$ 18,592,000

The Company also has approximately $3,658,000 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 $1,288,000 available to offset future Canadian federal income taxes payable as well as provincial investment tax credits of $714,000. The investment tax credits expire commencing in 2007 until 2015. The benefit of the investment tax credits has not been recognized as the realization is not reasonably assured.

At August 31, 2006, the Company also has non-capital loss carry forwards for UK income tax purposes totalling approximately $1,285,000 that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years. The Company estimates that is has non capital loss carry forwards in Barbados of approximately $9,700,000 that may be carried forward to reduce future taxable income. These losses are expected to expire in 2015.

13. Government Assistance

Under agreements with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company was eligible to receive conditionally repayable research and development funding amounting up to $5,415,648 to support the development of embedded devices and wireless internet-enabled network connectivity.

In December 2004, payments totalling $985,063, representing $947,374 previously withheld and applied against the receivable outstanding as at August 31, 2004 and an additional $37,689, were received of which $947,374 was applied against the associated fiscal 2005 other receivable balance. The additional $37,689 of funds received was recorded as Technology Partnerships Canada Funding Investment in the accompanying consolidated statements of operations.

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. In addition, the Company paid royalties of $226,173 during the year ended August 31, 2006 [2005 - $5,278] and accrued a further $260,905 in royalties.

The Technology Partnerships Canada Funding Investment reflected in the accompanying consolidated statements of operations comprises the following:

	2006	2005
Payment received from the Government of Canada, under the TPC program	$ —	$ (37,689)
Overpayment received and payable to the Government of Canada, under the TPC program	—	22,063
Royalties paid to the Government of Canada, under the TPC program	—	5,278
Accrued royalties payable to the Government of Canada, under the TPC program	260,905	225,000
	$ 260,905	$ 214,652

All Government of Canada audits of the Company's compliance with the TPC agreements that were in process in prior periods are complete and the Company is currently reviewing the results of the audits and negotiating an extension of its TPC agreement, which expired in March 2004. If the extension is granted by TPC and the Company accepts the extension, the Company will be required to pay approximately $387,000 and the original terms and conditions will be amended. If the Company does not accept the extension, the Company is not obligated to pay this $387,000. The outcome of these negotiations is not known or determinable at this time. Accordingly no provision has been made as at August 31, 2006. If the Company is found to be in default of its agreement with TPC, TPC can suspend or terminate any obligation and it can demand repayment of all or part of the contributions disbursed to the Company. To date the Company has received approximately $3.8 million in contributions from TPC and paid and accrued approximately $491,183 to TPC in royalties.

14. Commitments and Contingencies

[a] The Company has lease commitments for office premises and equipment with remaining terms of up to four 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. The royalty and minimum lease payments in each of the next six years are approximately as follows:

2007	$ 1,169,953
2008	1,227,518
2009	1,306,096
2010	1,183,438
2011	538,532
2012	409,487
	$ 5,835,024

[b] 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.

15. Financial Instruments and Risk Management

Fair values

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values due to their short maturities.

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 U.S. 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.

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 purchased 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 August 31, 2006, the Company had no foreign exchange contracts maturing in the ensuing year. During fiscal 2006, the Company entered into foreign exchange contracts which matured throughout the year. For fiscal 2006 the Company has recorded an approximate foreign exchange loss of $6,800 [2005 - $21,000] related to these 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:

	2006	2005
United States	$ 280,828	$ 165,902
Canada	963,623	705,443
Europe	116,381	109,235
	$ 1,360,832	$ 980,580

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

	2006	2005
United States	$ 9,656,845	$ 6,912,925
Canada	746,597	542,438
Europe	7,721,924	9,033,080
Other	532,351	1,050,662
	$ 18,657,717	$ 17,539,105

The Company earned revenue in the following groups:

	2006	2005
Hardware	$ 1,887,058	$ 1,944,910
Software	1,832,281	2,670,154
Services	14,938,378	12,924,041
	$ 18,657,717	$ 17,539,105

Significant customers
Two customers accounted for more than 10% of sales for the year ended August 31, 2006. Three customers accounted for more than 10% of sales for the year ended August 31, 2005.

	% of Sales		% of accounts receivable
	2006	2005	2006
Customer 1	17%	18%	17%
Customer 2	11%	11%	13%
Customer 3	1%	14%	—
	29%	43%	30%

18. 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 year.

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Chief Executive Officer

Vincent P. Schiralli
President and Chief Operating Officer

Andrew Morden
Chief Financial Officer

Randy Kath
Chief Technology Officer and
Vice President, Mobile Products Group

Mark Johnston
Vice President and General Manager,
Worldwide Sales and Technical Marketing

David Manuel
Executive Vice President,
Engineering Services Group

Wendy Pitt-Brooke
Corporate Secretary

BOARD OF DIRECTORS

Glenda M. Dorchak
(Chairman of the Board)
Director since: 2006

Thomas Bitove
Director since: 2005
Member: Compensation Committee,
Corporate Governance and
Nominating Committee

George A. Duguay
Director since: 2003
Member: Audit Committee,
Compensation Committee

Robert J. Gayton
Director since: 1995
Member: Audit Committee,
Corporate Governance and
Nominating Committee

Mark McQueen
Director since: 2005
Member: Audit Committee,
Compensation Committee, Corporate
Governance and Nominating Committee

Vincent P. Schiralli
Director since: 2003

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STOCK LISTING
The common shares of Intrinsyc Software International, Inc. are listed on the Toronto Stock Exchange.
Symbol: ICS

ANNUAL MEETING
Wednesday, December 13, 2006
10:00 a.m. Pacific Standard Time
Delta Vancouver Suites
550 West Hastings Street
Vancouver, BC

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