2007 Annual Report

CONVERGENCE

Intrinsyc Software International, Inc.

Intrinsyc is a global leader in wireless software solutions for high-level operating system platforms. Our software products, coupled with our engineering services expertise, provide complete mobile handset development solutions – solutions that let our customers and partners deliver compelling next-generation wireless products to market faster, and with reduced development costs.

Intrinsyc is publicly traded on the Toronto Stock Exchange (TSX: ICS) and headquartered in Vancouver, Canada, with regional offices in the United States, Taiwan, the United Kingdom and Barbados.

TECHNICAL EXCELLENCE ALIGNS EVERYTHING WE DO

From operating systems and applications, to power management and telephony, every Intrinsyc product and service is rooted in years of expertise in wireless hardware and software technology. Intrinsyc's knowledge of mobile high-level operating systems is unmatched:

- 2007 Microsoft® Windows® Embedded Excellence Award winner for Systems Integrator
- Offshore development center and Symbian Platinum Partner
- Leading systems integrator for Java and Linux-based technologies found in mobile handsets, smart phones, and converged devices.

2007 – SOLEUS ESTABLISHES INTRINSYC AS A SOFTWARE SOLUTIONS PROVIDER

Intrinsyc is the licensor of the Soleus™ platform based on Windows Embedded CE for consumer handset development. Intrinsyc has achieved noteworthy milestones for its Soleus handset platform this year, including two design wins with leading manufacturers and its first licensing revenue. The Soleus universe has also expanded with new Independent Software Vendor alliances and support for processors from Freescale®, Marvell® and ARM®.

BUILDING A TEAM TO CAPITALIZE ON OPPORTUNITIES

In 2007, Intrinsyc strengthened its Board with new directors and added seasoned leadership to the management team. Key appointments in Sales, Product Marketing and Development, Legal and Corporate Development will enable us to to further capitalize on the rapidly growing interest in, and adoption of, the Soleus mobile handset platform. The opening of a permanent office in Taipei, Taiwan has generated new wireless services contracts and exciting opportunities for Soleus.

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CONVERGENCE

Mobile device convergence is an explosive trend in the wireless handset industry. Convergence occurs when a manufacturer integrates two or more separate applications, like telephony and digital music playing capabilities, into one handheld device. Another popular combination is a GPS-enabled mobile phone handset.

The growing trend towards convergence benefits Intrinsyc in many ways. OEMs need more systems integration help than ever before, and our wireless engineering services make Intrinsyc an ideal partner. Handheld devices that run multiple applications require robust, high-level operating system platforms like Soleus.

Convergence is much more than a buzzword for Intrinsyc. It represents a unique opportunity to grow the company and fulfill our vision of being a global leader in wireless software solutions for high-level operating system platforms.

CUSTOMERS AND PARTNERS CHOOSE INTRINSYC FOR TECHNICAL EXPERTISE, OUR FLEXIBLE AND ROBUST MOBILE HANDSET SOFTWARE, AND WORLD-CLASS WIRELESS ENGINEERING SERVICES.

INTRINSYC SOFTWARE 2007 ACHIEVEMENTS

- Leading ODM licenses Soleus platform for development of Digital TV mobile phone with GPS
- Received 2007 Windows Embedded Excellence Award for Systems Integrator
- $21.8 million raised in equity offering to support mobile products business
- Secured two Soleus design wins, followed by a third in October 2007
- Mark Johnston appointed EVP Worldwide Sales and Business Development
- Opening of Taiwan office to support Soleus and wireless embedded services in Asia
- Souheil Gallouzi named as VP and GM Product Marketing and Development to oversee the planning and development of Soleus and other software offerings
- Revenue growth of 6% over prior year
- Mark Longo joined senior management team as General Counsel and VP of Corporate Development
- Successfully executed wireless service engagement with a leading handset manufacturer

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LETTER TO SHAREHOLDERS

Dear Fellow Shareholders

Fiscal 2007 was pivotal for Intrinsyc as we transition to become a global leader in software solutions for wireless handheld devices

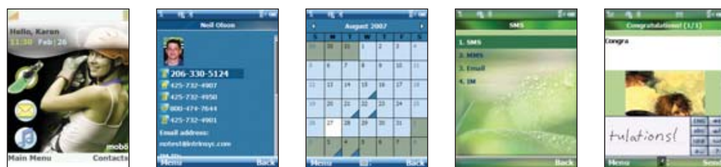
It has been a year of tremendous progress. As I reflect on my first year with Intrinsyc, I feel a great sense of pride in the way our employees embraced our transition and the results we achieved. In 2007, we released the Soleus mobile handset platform. We opened a new office in Taipei and secured our first Asia services engagement. To accelerate our growth as a wireless solutions provider, we made difficult, yet fiscally responsible decisions, including the winding-down of operations not strategically aligned with our direction. We also continued to attract world-class industry expertise to our board and executive staff, strengthening leadership and enhancing Intrinsyc's global profile with customers, partners and the industry. Of course, the most important achievements were closing our first two Soleus design wins with a third in the fall, as well as building a pipeline of customer design win opportunities. This validates the strength of our technology and is the foundation for growth.

2007 validated our market opportunity - the future for connected consumer wireless devices is as bright as a shiny apple

The launch of several high profile mobile offerings captured incredible market attention in 2007 – these devices and services have forced the industry to provide a superior mobile user experience. With the accelerating convergence of communications, productivity and entertainment capabilities, wireless handheld devices are becoming an extension of their user's lifestyle. Consumers now demand a richer, more graphical user-interface, seamless transitions between wireless technologies and on-demand multimedia experiences. Wireless operators now require a more diverse portfolio of devices capable of delivering personalized, revenue generating services. These growing requirements create immense challenges for device manufacturers, leading to

"With Windows Embedded CE, the Soleus tool chain allows for faster and more affordable mobile product development."

Olivier Fontana, Group Product Manager,
Windows Embedded Partner Marketing, Microsoft Corporation



accelerated demand for high-level operating system (HLOS) software platforms that deliver next generation experiences with reduced cost and time-to-market. As industry estimates project 3.4 billion wireless subscribers by 2011[1], device manufacturers will be relying heavily on third-party providers to supply technology and development tools, such as Soleus plug-ins, to accelerate go-to-market capabilities. In this competitive climate, the flexible Soleus platform is well positioned to become a key for success in consumer lifestyle device development.

Soleus launched in fiscal 2007, building on a decade of wireless experience

Intrinsyc has leveraged over 10 years of wireless handheld development experience with leading software providers, silicon vendors and device makers in its development of Soleus. Within its first year of release, Soleus has recognized revenue from design wins with two separate customers - a remarkable achievement that is well ahead of industry trends for software adoption. These initial collaborations mark the beginning of a strategic integration of our offerings into customers' product lines. With continued research and development investment throughout 2007, we have further positioned Soleus to succeed by addressing dynamic trends and changing market demands.

On September 27, 2007, Intrinsyc officially opened a Taipei Sales and Engineering office to reach key Asia markets and customers that will further accelerate our revenue growth. Our efforts in Asia are focused on targeted marketing to key wireless accounts, which have already resulted in our first three Soleus design wins, and continue to contribute to a strong prospective customer pipeline. In addition, the Taipei office successfully secured its first Asia-based services engagement in fiscal Q4 and will drive our greater Asia-Pacific presence.

Intrinsyc's development expertise

Intrinsyc was recognized as a vital member of the Microsoft ecosystem and won the 2007 Windows Embedded Excellence award for Systems Integrator in recognition of our engagement and technical excellence as a Windows Embedded Partner. We used our Windows Mobile and Embedded CE expertise to provide systems integration services for numerous tier 1 handset OEMs, as well as silicon vendors Freescale, Marvell and ARM.

THROUGH A HIGHLY CUSTOMIZABLE MODULAR DESIGN, SOLEUS PROVIDES:

- Soleus User Interface (UI). A plug-in for Microsoft's Visual Studio enables developers to quickly develop highly customized, dynamically loadable user interfaces
- Soleus Telephony Stack. Considered one of the most difficult components in wireless handheld device development, Intrinsyc provides a pre-certified telephony stack to accelerate time-to-market
- Soleus Application Suite. Provided as Platform Builder components, device manufacturers can easily include a full suite of applications to produce a full featured wireless handheld device

To further extend the modular framework, Soleus includes plug-ins for Visual Studio to enable third-party software providers to quickly port their applications to a Soleus-enabled device. This flexibility in the Soleus framework has driven adoption by device manufacturers.

[1] Price Waterhouse Coopers Global Entertainment and Media Outlook: 2007-2011

We continue to maintain our position as one of the largest North American Symbian development teams and expanded our Symbian licensee engagements. Additional projects implementing mobile Linux solutions confirmed Intrinsyc's position as a solutions leader for wireless handheld devices across high-level operating system platforms.

Investing in Soleus

We are transitioning to become a high-margin wireless handheld device software solutions business by investing in Soleus, as we recognize margins on software revenues are higher than those achieved by engineering services. To achieve this transition, it is essential we manage cash effectively. In 2007, we focused operating expenses on the software solutions business, closed our Singapore office, and plan to scale back our UK operations. We have followed through on our stated commitment to exit non-strategic businesses.

In 2007, we successfully lowered engineering costs through tighter management, and improved services margins by 26% over fiscal 2006. Other 2007 financial highlights include:

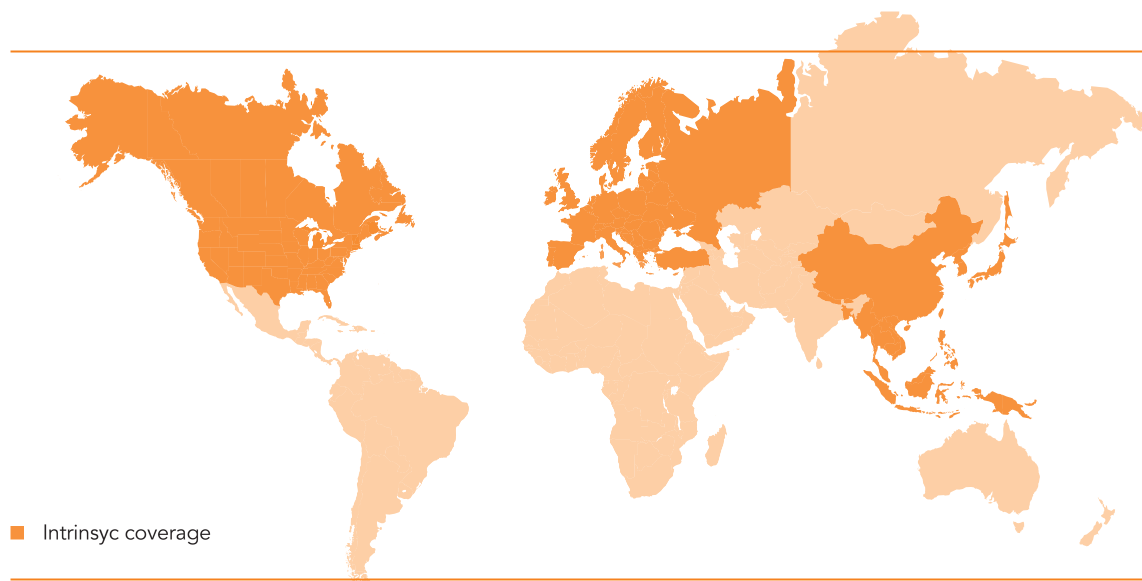
- Increased 2007 revenue by 6% over fiscal 2006
- Improved gross margin to 49% compared to 39% in 2006
- Retired all outstanding debt

These measures, along with our first Soleus design win, led to the decision to conduct an equity-based financing. In May 2007, we closed a $21.8 million equity offering that attracted new international institutional shareholders, and most importantly, enables continued development and commercialization of Soleus.

In 2007 we formed an experienced leadership team to steward Intrinsyc's growth

An essential ingredient in building Intrinsyc's business is leveraging the skills of talented employees with strong leadership. When I first joined Intrinsyc my personal goal was to enhance the Company's existing talent with the addition of senior managers who would provide strong industry knowledge, deep technical expertise and proven success running wireless and communications software businesses. We have accomplished this goal at both the executive and the board levels.

We started on the right track with the hiring of Mark Johnston from Intel in November 2006 to serve as Executive Vice President and General Manager, Worldwide Sales and Business Development. Mark is leading our effort to position Soleus with leading wireless equipment manufacturers; he drove all three Soleus design wins and our Asia expansion. He has assumed additional responsibility for Business Development and now also drives partnership programs with silicon vendors and service providers along with his sales responsibilities for software and services.



INDUSTRY EXPERTS ESTIMATE 26% OF ALL HANDSETS SHIPPED IN 2008 WILL COME FROM TAIWAN (ABI RESEARCH)

In 2007, we took decisive steps to align both our software products and engineering services businesses, resulting in increased synergy between product development, integration, support and deployment. Souheil Gallouzi recently joined Intrinsyc as Vice President and General Manager, Product Marketing and Development, after seven years with Qualcomm. Souheil's wireless industry background and credentials bring another level of experience in guiding product development, roadmap planning and partner programs. Souheil will partner with David Manuel who now runs Global Engineering Operations, responsible for the general engineering services business and field engineering support for Soleus customers. CTO Randy Kath has broadened his focus to drive advanced technology strategy for future generations of software. By consolidating our engineering operations, we are leveraging our deep systems integration expertise to accelerate Soleus customers' bring-up.

In 2007, we also reinforced our commitment to software products and intellectual property (IP) development with the addition of Mark Longo as Vice President of Corporate Development, General Counsel and Corporate Secretary. Mark, who previously served as General Counsel with three software companies, championed the launch of a process to generate, acquire, capture and commercialize new, innovative products and technologies. At Intrinsyc, he is overseeing the contracting aspects of our business to ensure we protect our software while maximizing customer engagement value.

The complete Intrinsyc team

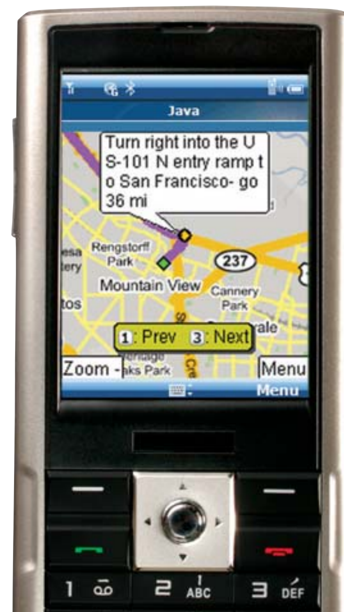
In 2007, we made considerable progress towards our collective goal of becoming a globally recognized provider of software solutions for wireless handheld devices. I wish to thank our team for their tireless efforts, and most importantly our investors, for your support and the confidence you have demonstrated in us. We have established the strong foundation upon which to build growth in 2008 and beyond. From this foundation we will continue to build success and create shareholder value by:

- Ramping the Soleus business, securing additional design wins and supporting customers as they bring their Soleus-based products to market
- Further developing Soleus to enable next generation handset opportunities
- Aligning our strong wireless systems integration engineering expertise to support Soleus as well as generate growth in services revenues
- Driving the path to profitability

Intrinsyc is committed to becoming a leading software solutions provider to the wireless industry by broadly deploying our leading edge technologies and expert wireless services. With the solid foundation we established in 2007, we look forward to a promising 2008.

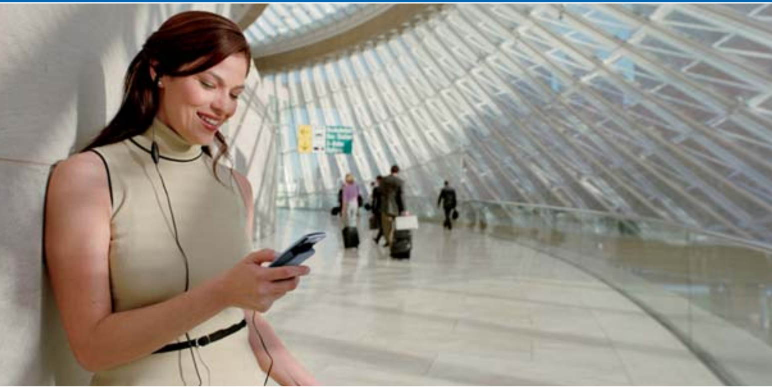
Glenda M. Dorchak

Chairman and Chief Executive Officer
Intrinsyc Software International, Inc.

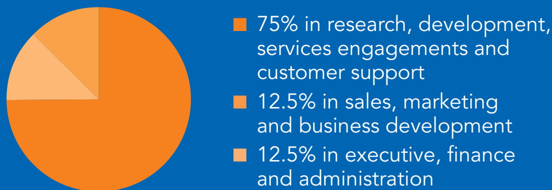


On the right: device designed and manufactured by YuHuaTel.

INTRINSYC AT A GLANCE



Employees by function
(as percentage)



Revenue growth
(in millions of dollars)

CAPABILITY AND OPPORTUNITIES

- The wireless device market is experiencing explosive growth - creating opportunity and challenges for equipment makers and network operators
- Intrinsyc product and services enable customers and partners to build better, converged wireless devices, faster
- Wireless engineering services are a solid business foundation with strategic value for and synergy with Soleus software
- The robust Soleus mobile handset platform allows OEMs to respond to competition quickly and to leapfrog competitors in features; providing fast time-to-market and reduced R&D costs
- Soleus unleashes the potential of a mobile handset to take on any look and feel
- Soleus enables new consumer handset usage models such as location-based services
- With resources around the globe, Intrinsyc can engage rapidly and ramp up quickly

THE OPPORTUNITIES FOR THE SOLEUS SOFTWARE PLATFORM ARE BRIGHT

Less than one year after its commercial release, adoption of the Soleus platform is on schedule, and the momentum for this complete, flexible, and faster approach to building converged handheld devices is growing.

Soleus offers a new approach to developing wireless handsets, providing a set of modular software components that can be deployed across multiple form factor designs. This allows handset manufacturers to reduce development costs and bring their products to market faster. Built on Microsoft's Windows Embedded CE operating system, Soleus leverages the Microsoft tool chain used by thousands of Windows application software and product developers worldwide.

Soleus software is generating licensing revenue now, with royalty revenue from product shipments expected in 2008.

FINANCIAL HIGHLIGHTS

(all amounts in Canadian dollars and in accordance with Canadian GAAP, unless stated otherwise)

OPERATIONS

Years ended August 31	F2007	F2006
Revenue	$ 19,705,794	$ 18,657,717
Cost of sales	10,033,615	11,318,054
	9,672,179	7,339,663
Administration	5,219,400	5,407,944
Marketing and sales	6,590,745	3,456,723
Research and development	12,025,934	10,969,692
Technology Partnerships Canada funding investment	291,175	260,905
Foreign exchange loss	125,911	428,220
EBITDA[1] loss	$ (14,580,986)	$ (13,183,821)
Amortization	821,282	1,061,174
Stock-based compensation	668,618	915,115
Loss on disposal of equipment	2,599	671
Interest income	(532,603)	(551,785)
Accretion and amortization – long-term debt	927,778	744,098
Interest expense – long-term debt	213,699	909,590
Income tax expense (recovery)		
Current	392,014	202,929
Future	(76,051)	(72,279)
Loss under Canadian GAAP	$ (16,998,322)	$ (16,393,334)

FINANCIAL POSITION

August 31	F2007	F2006
Cash and cash equivalents	$ 19,629,335	$ 22,487,076
Total assets	39,333,088	43,458,429
Total liabilities	4,888,649	12,619,570
Shareholders' equity	$ 34,444,439	$ 30,838,859

[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.

MANAGEMENT'S DISCUSSION & ANALYSIS

November 8, 2007

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, 2007. Management's discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the annual consolidated financial statements and the notes thereto that are prepared in accordance with Canadian generally accepted accounting principles, ("GAAP"). All amounts are presented in Canadian dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

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 2007 – Statement of Operations

Comparison of Fiscal 2007 and Fiscal 2006

	F2007	F2006	Change	Percentage Change
Revenue	$ 19,705,794	$ 18,657,717	$ 1,048,077	5.6%
Gross margin	9,672,179	7,339,663	2,332,516	31.8%
Gross margin %	49%	39%		
Administration	5,219,400	5,407,944	188,544	3.5%
Marketing and sales	6,590,745	3,456,723	(3,134,022)	(90.7%)
Research and development-Soleus development	11,894,992	10,561,169	(1,333,823)	(12.6%)
Other research and development	130,942	408,523	277,581	67.9%
Amortization	821,282	1,061,174	239,892	22.6%
Stock-based compensation	668,618	915,115	246,497	26.9%
Technology Partnerships Canada funding investment	291,175	260,905	(30,270)	(11.6%)
Total Operating Expenses	25,617,154	22,071,553	(3,545,601)	(16.1%)
Foreign exchange loss	125,911	428,220	302,309	70.6%
Loss on disposal of equipment	$2,599	671	(1,928)	(287.3%)
Interest income	(532,603)	(551,785)	(19,182)	(3.5%)
Accretion and amortization-long term debt	927,778	744,098	(183,680)	(24.7%)
Interest expense-long term debt	213,699	909,590	695,891	76.5%
Income tax expense	315,963	130,650	(185,313)	(141.8%)
Loss	$ 16,998,322	$ 16,393,334	$ (604,988)	(3.7%)
Loss per share	$ 0.18	$ 0.24	$ 0.06	

Overall, the increase in the loss for fiscal 2007, compared to the loss for fiscal 2006, was substantially caused by the following:

- The increase in marketing and sales costs was due to the Company increasing spending on sales and marketing activities to support Soleus, the Company's new mobile handset platform based on Windows Embedded CE.
- The increase in spending on research and development was due to the ongoing support of Soleus.
- Offsetting the increases in spending during the year was the increase in revenue as a result of the Company's successful execution on several large engineering services engagements. Additionally, the Company also earned revenue from Soleus contracts during the year.
- Gross margin improved as a result of the increase in revenue, as well as more efficient execution on engineering services engagements during the year leading to an increase in gross margin and gross margin percentage. In the prior year, the Company experienced technical challenges and increased execution costs related to fixed fee engineering services contracts due to complex new operating system software and semiconductor technology. These challenges did not reoccur in the current year, leading to improved margins.
- Administration expenses decreased slightly in the current year due to a decrease in variable compensation during the year.
- Accretion and amortization costs of approximately $928,000 and interest costs of approximately $214,000 were incurred during the year relating to the $8.0 million debenture agreement the Company entered into in fiscal 2006. The Company repaid these debentures early in November 2006 and as a result interest expense was approximately $696,000 lower in the current year than in the prior year.
- Amortization costs declined in the current year by approximately $240,000 as the Company fully amortized certain intellectual property assets during the prior year.

- 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 2007– Statement of Operations

Comparison of Fourth Quarter Fiscal 2007 and Fourth Quarter Fiscal 2006

	Q4 F2007	Q4 F2006	Change	Percentage Change
Revenue	$ 4,536,376	$ 4,923,932	$ (387,556)	(7.9%)
Gross margin	2,226,030	2,298,852	(72,822)	(3.2%)
Gross margin %	49%	47%		
Administration	1,268,825	1,446,636	177,811	12.3%
Marketing and sales	1,827,283	865,986	(961,297)	(111.0%)
Research and development - Soleus development	2,693,078	3,583,546	890,468	24.8%
Other research and development	101,936	92,879	(9,057)	(9.8%)
Amortization	225,696	192,207	(33,489)	(17.4%)
Stock-based compensation	163,068	158,054	(5,014)	(3.2%)
Technology Partnerships Canada funding investment	136,092	136,767	675	0.5%
Total Operating Expenses	6,415,978	6,476,075	60,097	0.9%
Foreign exchange loss (gain)	61,394	($22,528)	(83,922)	(372.5%)
Loss on disposal of equipment	2,599	671	(1,928)	(287.3%)
Interest income	($197,122)	($234,313)	(37,191)	(15.9%)
Accretion and amortization - long term debt	0	205,547	205,547	100.0%
Interest expense - long term debt	0	252,056	252,056	100.0%
Income tax expense	52,738	50,959	(1,779)	(3.5%)
Loss	$ 4,109,557	$ 4,429,615	$ 320,058	7.2%
Loss per share	$ 0.03	$ 0.05	$ 0.02	

Overall, the decrease in the loss for the fourth quarter of fiscal 2007, compared to the loss for the fourth quarter of fiscal 2006, was substantially the result of the following fluctuations:

- Revenue decreased in the fourth quarter as the Company has continued to see a declining revenue trend in our UK operation which, coupled with the wind-down of a successful engagement with a large handset OEM, resulted in a quarter-over-quarter decline in revenue. This decline also reflects our decision to concentrate on wireless engagements and transition away from the legacy general embedded services. Our new sales force is ramping up to drive the business with a much deeper focus on wireless than the Company has had in the past. We remain convinced that the transition of wireless product development to Asia-Pacific by the world's leading handset OEMs will provide a substantial business opportunity in the future.
- 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 2007 by approximately 4%, or $187,000, relative to Canadian dollar revenues in fiscal 2006.
- Administrative spending decreased as costs relating to the Company entering into a consulting agreement with the former CEO, due to the change in leadership of the Company in the fourth quarter of fiscal 2006, did not reoccur in the current quarter.
- The increase in marketing and sales costs was due to the Company increasing its spending on sales and marketing activities to support its Soleus software product.
- Research and development expenditures decreased during the fourth quarter of fiscal 2007 as compared to the fourth quarter of fiscal 2006, as the number of staff dedicated to the Soleus development project decreased once Soleus was launched commercially. As future releases of the

product are currently in development the Company expects it will continue to spend a significant amount on further development of the Soleus software product.

- As the Company repaid the debentures in the first quarter of fiscal 2007 there was no accretion or amortization expense recorded in the fourth quarter of fiscal 2007 and this caused the decrease when compared to the fourth quarter of fiscal 2006.

Fourth Quarter Fiscal 2007 – Statement of Operations

Comparison of Fourth Quarter Fiscal 2007 and Third Quarter Fiscal 2007

	Q4 F2007	Q3 F2007	Change	Percentage Change
Revenue	$ 4,536,376	$ 5,111,900	$ (575,524)	(11.3%)
Gross margin	2,226,030	2,647,662	(421,632)	(15.9%)
Gross margin %	49%	52%		
Administration	1,268,825	1,415,617	146,792	10.4%
Marketing and sales	1,827,283	1,734,161	(93,122)	(5.4%)
Research and development - Soleus development	2,693,078	2,951,124	258,046	8.7%
Other research and development	101,936	1,823	(100,113)	(5,491.7%)
Amortization	225,696	204,247	(21,449)	(10.5%)
Stock-based compensation	163,068	95,899	(67,169)	(70.0%)
Technology Partnerships Canada funding investment	136,092	153,358	17,266	11.3%
Total Operating Expenses	6,415,978	6,556,229	140,251	2.1%
Foreign exchange loss	61,394	488,818	427,424	(87.4%)
Loss on disposal of equipment	2,599	0	(2,599)	0.0%
Interest income	(197,122)	(93,105)	104,017	111.7%
Accretion and amortization - Long term debt	0	0	0	0.0%
Interest expense - long term debt	0	0	0	0.0%
Income tax expense	52,738	78,878	26,140	33.1%
Loss	$ 4,109,557	$ 4,383,158	$ 273,601	6.2%
Loss per share	$ 0.03	$ 0.05	$ 0.02	

Overall, the decrease in the loss for the fourth quarter of fiscal 2007, compared to the loss for the third quarter of fiscal 2007, was the result of a decrease in engineering services revenue and margins, and a reduction in operating expenses particularly regarding administration and Soleus-based research and development expenses. These changes were partially offset by the increase in sales and marketing, and an increase in non-Soleus research and development expenses.

- Gross margin decreased in the fourth quarter of fiscal 2007, versus the third quarter of fiscal 2007, due to the previously discussed shift in strategy and the wind-down of a significant OEM engagement which negatively impacted revenue in the quarter. Gross margin was positively impacted by the recognition of increased revenue in the fourth quarter related to the Company's Soleus software product.
- Administration expenses decreased during the fourth quarter as a result of the Company revising downward its estimate of its annual variable compensation payments that will occur subsequent to year-end.
- Soleus research and development expenditures decreased during the fourth quarter of fiscal 2007 as compared to the third quarter of fiscal 2007 as the number of staff dedicated to the Soleus development project decreased once Solues was launched commercially. As future releases of the product are currently in development the Company expects it will continue to spend a significant amount on further development of the Soleus software product.
- Other research and development expenditures increased in the fourth quarter as the Company initiated and devoted time to several new research projects.

- Interest income increased significantly in the fourth quarter of fiscal 2007 as the Company completed an offering of common shares during the third quarter of fiscal 2007 for gross proceeds of approximately $21.8 million. This significantly increased the Company's cash balances and, as a result, the amount of interest earned during the quarter.
- The impact of the strengthening of the Canadian dollar in relation to the US dollar during the third quarter of fiscal 2007 caused a large foreign exchange loss. The loss was a result of the Company's net working capital position that is denominated in US dollars. As exchange rates remained relatively consistent in the fourth quarter of fiscal 2007 this loss was not repeated.

Fiscal 2007 – Cash Flows

Cash Flows Comparison of Fiscal 2007 and Fiscal 2006

Cash Provided by (used in):	F2007	F2006	Change
Operating activities	$ (14,187,340)	$ (12,781,512)	$ (1,405,828)
Investing activities	(575,046)	(784,969)	209,923
Financing activities	11,904,645	28,735,347	(16,830,702)
Increase (decrease) in cash and cash equivalents	$ (2,857,741)	$ 15,168,866	$ (18,026,607)

For fiscal 2007, operating activities consumed approximately $1.4 million more in cash compared to fiscal 2006 largely as a result of the payment and drawdown of accounts payable and accrued liabilities in the current year and the increased expenditure on sales and marketing of Soleus.

Cash used in investing activities was consistent with fiscal 2006 and was largely the result of equipment additions required to sustain and grow the Company's business.

Cash provided by financing activities was the result of the Company completing a $21.8 million equity issuance, which was offset by the repayment of an $8.0 million debenture financing during the year. In fiscal 2006 the Company completed a $24.1 million offering and an $8.0 million debenture financing.

Fourth Quarter Fiscal 2007 – Cash Flows

Comparison of Fourth Quarter Fiscal 2007 and Fourth Quarter Fiscal 2006

Cash Provided by (used in):	Q4 F2007	Q4 F2006	Change
Operating activities	$ (3,259,927)	$ (3,823,715)	$ 563,788
Investing activities	(208,179)	(106,587)	(101,592)
Financing activities	1,708,374	(19,126)	1,727,500
Decrease in cash and cash equivalents	$ (1,759,732)	$ (3,949,428)	$ 2,189,696

The Company ended the fourth quarter of fiscal 2007 with cash and cash equivalents and short-term deposits totaling $19.6 million, as compared to $22.5 million at the end of fiscal 2006.

The decrease in cash used in operating activities primarily related to decreased spending on Soleus development of approximately $890,000 in the fourth quarter as compared to the prior year.

Investing activities in the current quarter related to the purchase of equipment as did the cash used in investing activities in the fourth quarter of the prior year.

Cash generated by financing activities in the current quarter was the result of the closing of the partial overallotment on the share offering completed in the third quarter of fiscal 2007.

RESULTS OF OPERATIONS

Revenues

Fiscal 2007

Comparison of Fiscal 2007 and Fiscal 2006

	F2007	Percentage of Total Revenue	F2006	Percentage of Total Revenue	Change	Percentage
Hardware revenue	$ 921,812	4.7%	$ 1,887,058	10.1%	$ (965,246)	(51.2%)
Software revenue	1,984,084	10.1%	1,832,282	9.8%	151,802	8.3%
Services revenue	16,799,898	85.2%	14,938,377	80.1%	1,861,521	12.5%
Total revenue	$19,705,794	100.0%	$18,657,717	100.0%	$1,048,077	5.6%

The increase in fiscal 2007 service revenue, compared to fiscal 2006, was attributed to successfully securing and executing projects focusing on mobile device opportunities, with both existing customers and new strategic customers. Also, the revenue from two large service contracts with major customers increased during the year.

Software revenue for fiscal 2007 compared to fiscal 2006, increased marginally as the volume and size of interoperability software product transactions remained consistent. The Company believes that due to the maturation of the markets into which the Company sells the interoperability software product, future revenues from this product will decline. The Company began recognizing revenue during the year relating to its Soleus software product, which accounted for part of the increase in Software revenue in the year. The Company expects that revenue from its Soleus software product will increase in the future as the Company signs new customers and the customers begin shipping Soleus-enabled devices.

Hardware revenues for fiscal 2007, compared to fiscal 2006, decreased as a result of the Company's focus on software development of Soleus and services activities. The Company has not invested in developing any new hardware platforms and as a result expects that hardware revenues in the future will decline.

The weakening value of the US dollar relative to the Canadian dollar decreased revenue in fiscal 2007 by approximately 2%, or $380,000 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 may elect to hedge its exposure to foreign currencies, however during fiscal 2007 the Company did not enter into any hedging arrangements. The Company's US dollar exposure on revenue is somewhat naturally hedged by its significant US operating costs.

There were two significant customers that accounted for 50% of revenue (38% and 12%, respectively) in the fourth quarter of fiscal 2007 and 50% (26% and 24%, respectively) of fiscal 2007 revenue. In the fourth quarter of fiscal 2006, there were two significant customers that accounted for 31% (18% and 13%, respectively) of revenue and 28% (17%, and 11%, respectively) of fiscal 2006 revenue.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Fourth Quarter Fiscal 2006

	Q4 F2007	Percentage of Total Revenue	Q4 F2006	Percentage of Total Revenue	Change	Percentage
Hardware revenue	$ 128,136	2.8%	$ 389,379	7.9%	$ (261,243)	(67.1%)
Software revenue	598,974	13.2%	477,012	9.7%	121,962	25.6%
Services revenue	3,809,266	84.0%	4,057,541	82.4%	(248,275)	(6.1%)
Total revenue	$ 4,536,376	100.0%	$ 4,923,932	100.0%	$ (387,556)	(7.9%)

In the fourth quarter of fiscal 2007 hardware revenues were significantly lower than the fourth quarter of fiscal 2006. This decrease was the result of the Company not investing in new hardware development as outlined previously.

Services revenues for the fourth quarter of fiscal 2007 were lower than the fourth quarter of fiscal 2006 as the Company has wound down a significant OEM engagement which negatively impacted revenue in the quarter and has focused its strategy to concentrate on wireless engagements.

Software revenue in the fourth quarter of 2007 increased over the fourth quarter of 2006 as a result of the Company recognizing revenue from its Soleus software product during the current quarter.

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 2007 by approximately 4%, or $187,000 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 2006.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Third Quarter Fiscal 2007

	Q4 F2007	Percentage of Total Revenue	Q3 F2007	Percentage of Total Revenue	Change	Percentage
Hardware revenue	$ 128,136	2.8%	$ 135,307	2.6%	$ (7,171)	(5.3%)
Software revenue	598,974	13.2%	499,424	9.8%	99,550	19.9%
Services revenue	3,809,266	84.0%	4,477,169	87.6%	(667,903)	(14.9%)
Total revenue	$ 4,536,376	100.0%	$ 5,111,900	100.0%	$ (575,524)	(11.3%)

In the fourth quarter of fiscal 2007 hardware revenues were marginally lower than the third quarter of fiscal 2007. This decrease was the result of the Company not investing in new hardware development as outlined previously.

Services revenues for the fourth quarter of fiscal 2007 were lower than the third quarter of fiscal 2007 as the Company has wound down a significant OEM engagement which negatively impacted revenue in the quarter and has focused its strategy to concentrate on wireless engagements.

Software revenue in the fourth quarter of fiscal 2007 increased over the third quarter of fiscal 2007 as a result of the Company recognizing increased revenue from its Soleus software product during the current quarter.

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 which are generally in the range 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 2007

Comparison of fiscal 2007 and of fiscal 2006

	F2007	F2006	Change	Percentage
Gross margin	$ 9,672,179	$ 7,339,663	$ 2,332,516	31.8%
Gross margin %	49%	39%		

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

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Fourth Quarter Fiscal 2006

	Q4 F2007	Q4 F2006	Change	Percentage
Gross margin	$ 2,226,030	$ 2,298,852	$ (72,822)	(3.2%)
Gross margin %	49%	47%		

The gross margin percentage in the fourth quarter of fiscal 2007, as compared to the fourth quarter of fiscal 2006, increased marginally. The relatively high gross margin percentages in both periods were a result of successfully securing and executing projects focused on wireless engineering services opportunities. As the ratio of software revenue increased and hardware revenue decreased in the fourth quarter of fiscal 2007 as compared to the fourth quarter of 2006, gross margins improved marginally.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Third Quarter Fiscal 2007

	Q4 F2007	Q3 F2007	Change	Percentage
Gross margin	$ 2,226,030	$ 2,647,662	$ (421,632)	(15.9%)
Gross margin %	49%	52%		

The decrease in gross margin in the fourth quarter of fiscal 2007, compared to the third quarter of fiscal 2007, was the result of the wind-down of a successful engagement with a large handset OEM.

Marketing and Sales Expenses

Fiscal 2007

Comparison of Fiscal 2007 and Fiscal 2006

	F2007	F2006	Change	Percentage
Marketing and sales	$ 6,590,745	$ 3,456,723	$ (3,134,022)	(90.7%)

Marketing and sales costs increased in fiscal 2007 as compared to fiscal 2006 due to increased salary and salary related costs of approximately $1.6 million, associated with headcount increases in sales and marketing to support the release of the Company's Soleus software product. Increased tradeshow costs of approximately $160,000 for attendance at the 3GSM tradeshow during the year, an increase of approximately $394,000 relating to increased travel expenses for travel to the 3GSM tradeshow and to support the release of the Soleus software product, and an increase of $403,000 in consulting fees incurred in support of the Soleus go-to-market strategy also contributed to the increase.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Fourth Quarter Fiscal 2006

	Q4 F2007	Q4 F2006	Change	Percentage
Marketing and sales	$ 1,827,283	$ 865,986	$ (961,297)	(111.0%)

Marketing and sales costs increased significantly in the fourth quarter of fiscal 2007 compared to the fourth quarter of fiscal 2006 due to more activity in support of the release of the Company's Soleus software product. Salaries and related costs increased $518,000, travel expenses increased $79,000, and consulting related expenses increased by approximately $55,000. These increases were the result of the increase in headcount in sales and marketing in the comparative periods and more activity in the marketing and sales group occurring in the fourth quarter of fiscal 2007 to support the Soleus go-to-market strategy.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Third Quarter Fiscal 2007

	Q4 F2007	Q3 F2007	Change	Percentage
Marketing and sales	$ 1,827,283	$ 1,734,161	$ (93,122)	(5.4%)

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 2007

Comparison of Fiscal 2007 and Fiscal 2006

	F2007	F2006	Change	Percentage
Research and development - Soleus	$ 11,894,992	$ 10,561,169	$ (1,333,823)	(12.6%)
Other research and development	130,942	408,523	277,581	67.9%
Total research and development	$ 12,025,934	$ 10,969,692	$ (1,056,242)	(9.6%)

The increase in research and development spending in fiscal 2007, compared to fiscal 2006, was due to ongoing efforts made in fiscal 2007 relating to the development and eventual commercialization of the Soleus mobile handset platform. This increase was partially offset by a reduction in research and development spending on the Company's hardware and interoperability software products. The Company expects to continue to devote significant spending on the development of Soleus in fiscal 2008.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Fourth Quarter Fiscal 2006

	Q4 F2007	Q4 F2006	Change	Percentage
Research and development - Soleus	$ 2,693,078	$ 3,583,546	$ 890,468	24.8%
Other research and development	101,936	92,879	(9,057)	(9.8%)
Total research and development	$ 2,795,014	$ 3,676,425	$ 881,411	24.0%

Research and development expenditures decreased during the fourth quarter of fiscal 2007 as compared to the fourth quarter of fiscal 2006 as the number of staff dedicated to the Soleus development project decreased once Solues was launched commercially. As future releases of the product are currently in development the Company expects it will continue to spend a significant amount on further development of the Soleus software product.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Third Quarter Fiscal 2007

	Q4 F2007	Q3 F2007	Change	Percentage
Research and development - Soleus	$ 2,693,078	$ 2,951,124	$ 258,046	8.7%
Other research and development	101,936	1,823	(100,113)	(5,491.7%)
Total research and development	$ 2,795,014	$ 2,952,947	$ 157,933	5.3%

Soleus research and development expenditures decreased during the fourth quarter of fiscal 2007 as compared to the third quarter of fiscal 2007, as the number of staff dedicated to the Soleus development project decreased once Solues was launched commercially. As future releases of the product are currently in development the Company expects it will continue to spend a significant amount on further development of the Soleus software product. Other research and development expenditures increased in the fourth quarter of fiscal 2007 as the Company initiated and devoted time to several new research projects.

Administration Expenses

Fiscal 2007

Comparison of Fiscal 2007 and Fiscal 2006

	F2007	F2006	Change	Percentage
Administration	$ 5,219,400	$ 5,407,944	$ 188,544	3.5%

Administrative costs decreased marginally in fiscal 2007, as compared to fiscal 2006, as the Company has increased its scope of operations and the number of geographic locations it operates within during the year, but has attempted to do so in a cost efficient manner. The Company increased its spending on travel by $162,300 and training by approximately $120,000 during the year to support the increase in the geographic scope of operations. These increases were offset by a decrease of approximately $266,000 in discretionary bonus expenses during the year and a decrease in bad debts expense of $58,000.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Fourth Quarter Fiscal 2006

	Q4 F2007	Q4 F2006	Change	Percentage
Administration	$ 1,268,825	$ 1,446,636	$ 177,811	12.3%

In the fourth quarter of fiscal 2007 there was a decrease in both discretionary bonus costs and in consulting costs that previously resulted from the change in the leadership of the Company that occurred in fourth quarter of fiscal 2006. Bonus and consulting related costs in the fourth quarter of fiscal 2007 were approximately $498,000 less than in the fourth quarter of fiscal 2006. These decreases were offset by increases in office rent expenses as the Company expanded the number of locations in which it conducts business.

Fourth Quarter Fiscal 2007

Comparison of Fourth Quarter Fiscal 2007 and Third Quarter Fiscal 2007

	Q4 F2007	Q3 F2007	Change	Percentage
Administration	$ 1,268,825	$ 1,415,617	$ 146,792	10.4%

In the fourth quarter of fiscal 2007, compared to the third quarter of fiscal 2007, administrative expenses decreased by $147,000 due predominantly to the decrease in discretionary bonus costs incurred during the quarter.

SUMMARY OF QUARTERLY RESULTS

$Millions	Q4 F2007	Q3 F2007	Q2 F2007	Q1 F2007	Q4 F2006	Q3 F2006	Q2 F2006	Q1 F2006
Revenue	$ 4.6	$ 5.1	$ 5.0	$ 5.0	$ 4.9	$ 4.4	$ 4.8	$ 4.6
Loss	(4.1)	(4.4)	(4.2)	(4.3)	(4.4)	(4.7)	(4.5)	(2.7)
Loss per share	$ (0.03)	$ (0.05)	$ (0.05)	$ (0.05)	$ (0.05)	$ (0.06)	$ (0.08)	$ (0.05)

Due to the nature of product and customer mix as well as the ongoing volatility within the technology and telecommunications sector, both the revenues and losses of the Company have experienced 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 of August 31, 2007, Intrinsyc had cash and cash equivalents and short-term investments totaling $19.6 million, with working capital of $18.6 million as compared to cash and cash equivalents of $22.5 million and working capital of $22.0 million as of August 31, 2006.

At August 31, 2007, 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 $56,000 on earnings before income tax.

Cash Provided by (used in):	F2007	F2006	Change
Operating activities	$ (14,187,340)	$ (12,781,512)	$ (1,405,828)
Investing activities	(575,046)	(784,969)	209,923
Financing activities	11,904,645	28,735,347	(16,830,702)
Increase (decrease) in cash and cash equivalents	$ (2,857,741)	$ 15,168,866	$ (18,026,607)

For fiscal 2007, operating activities consumed approximately $1.4 million more in cash compared to fiscal 2006 largely as a result of the payment and drawdown of accounts payable and accrued liabilities in the current year and the increased expenditure on sales and marketing of Soleus.

Cash used in investing activities was consistent with fiscal 2006 and consisted mainly of equipment additions required to support the growth in the Company's business.

The decrease in cash provided by financing activities was the result of the public equity offering and the redemption of the debentures discussed below. In fiscal 2006, the cash generated by financing activities was a result of a public equity offering, and the debenture offering.

The Company completed a public offering of 36,385,900 common shares during the year for gross proceeds to the Company of $21.8 million and net proceeds after expenses of $19.9 million. Also during the year, the Company redeemed early the $8.0 million debentures that were issued in the prior year.

Contractual Obligations $Millions	Total	F2008	F2009	F2010	F2011	F2012
Operating lease obligations	$5.0	$1.4	$1.5	$1.2	$0.5	$0.4

[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.

As at November 8, 2007, the Company had 119,493,436 common shares outstanding, 7,462,500 share options outstanding and 21,500,140 outstanding warrants and underwriters' options.

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

Government Assistance

As set out in the consolidated financial statements as at, and for the periods ended August 31, 2007 and 2006, the Technology Partnerships Canada ("TPC") audit of the Company's TPC submissions is complete.

Under agreements with the Government of Canada's TPC program, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of $3.8 million in contributions during the term of the agreement.

During the year ended August 31, 2005, the Company determined that it had received an overpayment from TPC of $22,063 and accordingly recorded a liability for this amount.

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

The Company has evaluated the correspondence and the contribution agreement, and has engaged in a dialogue with the ITO in order to arrive at a final determination of eligibility of these costs under the program. The original agreement provides for alternative dispute resolution processes to resolve disputes relating to the agreement which may be pursued in the event that the parties are unable to reach agreement on eligibility of these costs. At this time, the Company is unable to assess the likelihood of repayment of the requested amounts or arrive at an estimate for the quantum of any future negotiated repayments. Any amount the Company pays the ITO in excess of the accrued $22,063 will result in an additional loss that would be recorded in the period of the determination that the amount is owed.

The Company believes its position with regards to its claims has merit and intends to seek a resolution to this letter that will minimize the cost to the Company.

SELECTED ANNUAL INFORMATION

The following table summarizes selected financial information for the periods indicated.

Fiscal Years ended August 31,	2007	2006	2005
Result of Operations			
Revenue	$ 19,705,794	$ 18,657,717	$ 17,539,105
Gross profit	9,672,179	7,339,663	8,458,106
Net loss	16,998,322	16,393,334	4,979,981
Basic and fully diluted loss per share	0.18	0.24	$0.09
Weighted average shares outstanding	94,181,525	67,618,153	54,477,377
Financial Position			
Cash and cash equivalents	19,629,335	22,487,076	7,318,210
Working capital	18,562,523	22,001,662	7,778,100
Total assets	39,333,088	43,458,429	28,090,521
Long term debt	–	7,617,946	–
Other long-term financial liabilities	184,386	229,655	261,425
Shareholders' equity	$ 34,444,439	$ 30,838,859	$ 23,938,983

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 ongoing 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, 2007 consolidated financial statements.

Revenue Recognition

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

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

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

The Company's multiple-element sales arrangements include arrangements where software licenses and the associated post-contract customer support ("PCS") are sold together. The Company has established

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

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

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

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, 2007, all derivative financial instruments met the criteria for hedge accounting.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be uncollectible. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, 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 Option Pricing 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 US 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, 2007 the Company had no outstanding forward exchange contracts to sell US dollars.

RISKS AND UNCERTAINTIES

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

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

Additional Financing

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

Research and Development

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

Major Industry Software Vendor Partners May Become Competitors

The Company relies on software developed by Microsoft and Symbian in order to develop and market its products and services. As the developer of Windows Mobile, Windows Embedded 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, 2007, the Company had an accumulated deficit of approximately $68.9 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, 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, Marketing and Strategic Alliances

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

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

Length of Sales Cycle

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

Intellectual Property Protection

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

Competition

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

International Expansion of Business Operations

The Company plans to increase international operations, including the expansion of a sales office and development center 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 Interoperability Solutions

The market for mobile device and interoperability software and services is emerging and the potential size of this market and the timing of its development are not well known. As a result, the Company's profit potential is uncertain and the Company's revenue may not grow as fast as the Company anticipates, if at all. The Company is dependent upon the broad acceptance by business and consumers of mobile devices, particularly mobile phones utilizing high-level operating systems, as well as supporting applications, which will depend on many factors, including:

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

Foreign Exchange Risk

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

Potential Fluctuations in Quarterly Results

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

Management of Growth

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

Acquisitions

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

Product Liability

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

Shareholder Rights Plan

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.

Internal Control Over Financial Reporting

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

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

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

Disclosure Controls and Procedures

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

The Chief Executive Officer and Acting Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that as at August 31, 2007, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.

OUTLOOK

For fiscal 2008, the Company's management believes that the market for mobile 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 independent directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review the consolidated financial statements and the independent auditor's report. The audit committee has approved the consolidated financial statements and reported its findings to the Board of Directors.

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

Glenda Dorchak
Chief Executive Officer
October 19, 2007

David Fischer
Acting Chief Financial Officer
October 19, 2007

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, 2007 and 2006 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada,
October 19, 2007.

CONSOLIDATED BALANCE SHEETS

As at August 31

	2007 $	2006 $
ASSETS		
Current		
Cash and cash equivalents [note 3]	19,629,335	22,487,076
Accounts receivable [notes 4 and 17]	3,080,974	3,789,743
Inventory	15,872	110,996
Prepaid expenses - current	540,605	385,816
Total current assets	23,266,786	26,773,631
Prepaid expenses	156,627	61,769
Equipment [notes 5 and 17]	1,479,407	1,360,832
Goodwill [note 6[a]]	14,189,478	14,189,478
Intangible assets [note 6[b]]	240,790	556,120
Deferred financing costs [note 8]	–	516,599
Total assets	39,333,088	43,458,429
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	3,563,078	4,010,542
Taxes payable	422,840	218,912
Capital lease obligation [note 13]	15,396	–
Deferred revenue	702,949	542,515
Total current liabilities	4,704,263	4,771,969
Debentures [note 8]	–	7,617,946
Long term capital lease obligation [note 13]	32,570	–
Future income taxes [note 11]	151,816	229,655
Total liabilities	4,888,649	12,619,570
Commitments and contingencies [notes 12, 13 and 14]		
Shareholders' equity		
Share capital [note 9]	94,089,090	74,623,739
Warrants and underwriters' options [notes 8 and 9]	5,736,316	5,229,997
Contributed surplus [note 10]	3,584,107	2,951,875
Cumulative translation adjustment	(27,792)	(27,792)
Deficit	(68,937,282)	(51,938,960)
Total shareholders' equity	34,444,439	30,838,859
Total liabilities and shareholders' equity	39,333,088	43,458,429

See accompanying notes to consolidated financial statements

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended August 31

	2007 $	2006 $
Revenues [note 17]	19,705,794	18,657,717
Cost of sales	10,033,615	11,318,054
	9,672,179	7,339,663
Expenses		
Administration	5,219,400	5,407,944
Marketing and sales	6,590,745	3,456,723
Research and development	12,025,934	10,969,692
Amortization	821,282	1,061,174
Stock-based compensation [note 10]	668,618	915,115
Technology Partnerships Canada funding investment [note 12]	291,175	260,905
	25,617,154	22,071,553
Loss before other (earnings) expense and income taxes	15,944,975	14,731,890
Other expense (earnings)		
Foreign exchange loss [note 16]	125,911	428,220
Loss on disposal of equipment	2,599	671
Interest income	(532,603)	(551,785)
Accretion and amortization – long term debt [note 8]	927,778	744,098
Interest expense – long term debt [note 8]	213,699	909,590
	737,384	1,530,794
Loss before income taxes	16,682,359	16,262,684
Income tax expense (recovery) [note 11]		
Current	392,014	202,929
Future	(76,051)	(72,279)
	315,963	130,650
Loss for the year	16,998,322	16,393,334
Deficit, beginning of year	51,938,960	35,545,626
Deficit, end of year	68,937,282	51,938,960
Loss per share (basic and diluted)	0.18	0.24
Weighted average number of shares outstanding	94,181,525	67,618,153

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31

	2007 $	2006 $
OPERATING ACTIVITIES		
Loss for the year	(16,998,322)	(16,393,334)
Items not involving cash:		
Amortization	821,282	1,061,174
Future income taxes	(77,839)	(31,770)
Stock-based compensation [note 10]	668,618	915,115
Accretion and amortization – long term debt	222,322	744,098
Accretion and amortization realized on early redemption of debentures	705,456	–
Changes in non-cash operating working capital:		
Income taxes payable	203,928	(44,470)
Accounts receivable	708,769	119,853
Inventory	95,124	23,322
Prepaid expenses	(249,647)	(101,823)
Accounts payable and accrued liabilities	(447,465)	1,220,468
Deferred revenue	160,434	(294,145)
Cash used in operating activities	(14,187,340)	(12,781,512)
INVESTING ACTIVITIES		
Purchase of equipment	(575,046)	(784,969)
Cash used in investing activities	(575,046)	(784,969)
FINANCING ACTIVITIES		
Issuance of common shares and warrants [note 9]	21,864,907	24,123,936
Share issuance costs [note 9]	(1,929,623)	(2,344,984)
Repayment of capital lease obligation	(1,514)	–
Debentures [note 8]	(8,000,000)	8,000,000
Debentures issuance costs [note 8]	(29,125)	(1,043,605)
Cash provided by financing activities	11,904,645	28,735,347
Increase (decrease) in cash and cash equivalents	(2,857,741)	15,168,866
Cash and cash equivalents, beginning of year	22,487,076	7,318,210
Cash and cash equivalents, end of year	19,629,335	22,487,076
Supplementary information		
Interest paid	214,893	903,749
Interest received	551,840	503,329
Income taxes paid	211,076	117,630

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007 & 2006

1. ORGANIZATION

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

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 bankers' acceptances, with a term to maturity of three months or less when acquired and are valued at cost plus interest earned, which approximates market value.

Inventory

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

Allowance for doubtful accounts

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be uncollectible. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, the current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts.

Research and development

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

Equipment

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

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

Leasehold improvements are amortized on a straight-line basis over the shorter of the initial lease term or their expected useful lives.

Leases

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

Intellectual property and other intangible assets

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

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

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

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

Goodwill

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

Goodwill is not amortized and is annually tested for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. The first step is to compare the carrying amount of the reporting unit to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. Management has completed the first step of the goodwill impairment test as of August 31, 2006 and August 31, 2007.

The second step has not been required, but would be carried out if the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit's goodwill is determined in the same manner as the value of goodwill as 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

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

The Company also enters into contracts that are primarily fixed fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems, because these services are essential to the functionality of other elements in the arrangement. Under this method, revenue is recognized using

the percentage of completion basis and is calculated based on actual hours incurred compared to the estimated total hours for the services under the arrangement, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer.

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

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

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

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

Unbilled revenue

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

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, 2007, 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 of issuing the shares, net of income tax recoveries.

Impairment of equipment

The Company monitors the recoverability of equipment, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result 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, 2007, 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

The Company established an operating line of credit for borrowings up to $5,000,000, bearing interest at prime rate plus 0.5%. Prime rate was 6.25% at August 31, 2007 [2006 - 6.00%]. The line is collateralized by eligible receivables. There was no borrowing outstanding against the operating line of credit as at August 31, 2007. The Company also has a US checking account with an overdraft limit that is collateralized by restricted cash in the amount of $13,200 ($12,500 USD). There were no borrowings outstanding against the overdraft as at August 31, 2007 and 2006.

4. ACCOUNTS RECEIVABLE

	2007 $	2006 $
Trade and miscellaneous receivables	3,018,599	3,129,351
Unbilled revenue	62,375	660,392
	3,080,974	3,789,743

5. EQUIPMENT

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

The aggregate amortization expense related to equipment for the year ended August 31, 2007 was $505,952 [2006 - $404,717].

6. GOODWILL AND OTHER INTANGIBLE ASSETS

[a] There were no changes to the goodwill balance during the years ended August 31, 2007 and August 31, 2006.

[b] Other intangible assets as at August 31, 2007 and 2006 were as follows:

	Gross carrying amount $	Accumulated amortization $	Total $
2007			
Intellectual property	3,336,679	3,095,889	240,790
Other intangible assets	274,080	274,080	–
	3,610,759	3,369,969	240,790
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

The aggregate amortization expense related to intangible assets for the year ended August 31, 2007 was $315,330 [2006 - $656,457].

7. EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS

	2007 $	2006 $
Benefit costs	677,795	548,579

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

8. DEBENTURES

On October 3, 2005, the Company closed an $8.0 million debenture financing (the "Debenture Financing") with Wellington Financial Fund II ("Wellington Financial"). The financing was by way of secured Debentures (the "Debentures") maturing on October 3, 2007. Concurrent with the financing, the Company issued to Wellington Financial an aggregate of 3,870,968 warrants of the Company (the "Warrants"). Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.62 per share at any time prior to October 3, 2010. The fair value of the Warrants was determined using the Black-Scholes Option Pricing Model and recorded in shareholders' equity.

The Company had the right to repay the Debentures in whole or in part at any time following such date which was six months from the date following the closing date (April 3, 2006), and subject to certain restrictions. On November 17, 2006, the Company exercised its right and repaid the Debentures and accrued interest to the payment date in full.

The carrying value of the Debentures was being accreted to their face value over their life to maturity (October 3, 2007). On repayment, the remaining amount was accreted as the Debentures were paid in full on that date. For the year ended August 31, 2007, the Company recorded $382,054 [2006 – $306,973] as accretion expenses. Of this amount, $308,072 would have been accreted over the remaining period to maturity if the Debentures had not been repaid.

There were a total of $1,043,605 of legal, professional and transaction fees associated with the Debenture Financing. Of this amount, $953,721 was recorded as deferred financing costs and $89,884 was offset against the warrants in shareholders' equity on a proportionate basis based on the relative fair value of the Debentures and the Warrants resulting in a net valuation of the warrants of $599,143. Deferred financing costs were being amortized over the twenty-four month life to maturity of the Debentures. As the Debentures were paid in full on November 17, 2006, the remaining balance was expensed in full. During the year ended August 31, 2007, the Company recorded $545,724 [2006 – $437,125] of amortization on the deferred financing costs. Of this amount, $29,125 were additional legal, professional and transaction fees related to the repayment and $397,384 were deferred financing costs which would have been recorded over the period of December 2006 to October 2007 if the Debentures had not been repaid.

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

	2007 $	2006 $
Non-cash accretion of debentures from carrying value to face value	73,982	306,973
Non-cash accretion realized due to early payment of debentures	308,072	–
Non-cash amortization of debt financing charges	119,215	437,125
Non-cash amortization realized due to early payment of debentures	397,384	–
Additional legal, professional and transaction fees	29,125	–
Total accretion and amortization	927,778	744,098
Cash interest expense	213,699	909,590
	1,141,477	1,653,688

9. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value; and
Unlimited number of preference shares without par value.

Issued

	Number of common shares	Amount $
Outstanding, August 31, 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
Shares issued in connection with stock options exercised	64,167	33,367
Transfer from contributed surplus of issue date fair value for options exercised [note 10]	–	36,386
Shares issued in connection with public offering	36,385,900	19,395,598
Outstanding, August 31, 2007	119,493,436	94,089,090

[a] On May 3, 2007, the Company announced that it had entered into an agreement with a group of underwriters in connection with a public offering of common shares. On May 10, 2007, 33,334,000 common shares were issued with gross proceeds amounting to $20,000,400 at $0.60 per common share with $1,775,004 of cash underwriters' fees and expenses resulting in net cash proceeds of $18,225,396. The Company had granted the underwriters an over-allotment option, exercisable for a period of 30 days following closing of the offering, to purchase up to an additional 15% of the number of common shares issued pursuant to the offering. On June 7, 2007, the underwriters partially exercised their option and purchased 3,051,900 common shares with gross proceeds amounting to $1,831,140 at $0.60 per common share with $154,619 of cash underwriters' fees and expenses resulting in net cash proceeds of $1,676,521. The balance of the over-allotment option expired unexercised on June 10, 2007.

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

On June 7, 2007 the underwriters received 152,595 compensation options ("underwriters' options"). This equates to 5% of the common shares sold under the over-allotment offering. Each compensation option is exercisable to purchase one common share at the offering price for a period of two years following the closing date of June 7, 2007. The underwriters' options were valued at $56,468. This amount has been classified as warrants and underwriters' options in the share capital section of the consolidated balance sheet.

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

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

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

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.

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 generally vest over three years with the first one-third vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five year term. The Company has reserved 13,395,774 options for issuance under its employee share option plan, a total of 4,173,191 options have been exercised to date leaving a total of 9,222,583 options available for issuance of which 7,703,925 have been granted and are outstanding as at August 31, 2007.

A summary of the Company's share option activity for the years ended August 31, 2007 and 2006 is as follows:

	Outstanding options	
	Number of common shares	Weighted average exercise price $
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
Options granted	2,716,030	0.58
Options exercised	(64,167)	0.52
Options cancelled/expired	(1,322,351)	0.82
Outstanding, August 31, 2007	7,703,925	0.79

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

	Options outstanding			Options exercisable	
Range of exercise price $	Number of shares	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable	Weighted average $
0.39 - 0.74	3,736,140	3.75	0.57	1,232,113	0.55
0.75 – 1.10	2,769,840	2.94	0.90	1,824,841	0.92
1.11 - 1.32	1,197,945	1.96	1.23	923,473	1.23
	7,703,925	3.18	0.79	3,980,427	0.88

Warrants and underwriters' options

A summary of the Company's share purchase warrants and underwriters' options for the years ended August 31, 2007 and 2006 are as follows:

			Outstanding warrants
	Number of Warrants and Underwriters' Options	Weighted average exercise price $	Amount $
Outstanding, August 31, 2005	100,000	3.20	163,500
Warrants [note 8]	3,870,968	0.62	599,143
Share capital reallocation		0.94	(23,500)
Warrants expired	(100,000)	3.20	(140,000)
Warrants [note 9b]	13,398,201	1.05	4,084,584
Underwriters' compensation options [note 9b]	1,607,784	0.90	391,711
Underwriters' compensation warrants [note 9b]	803,892	1.05	154,559
Outstanding, August 31, 2006	19,680,845	0.95	5,229,997
Underwriters' compensation options [note 9a]	1,819,295	0.60	506,319
Outstanding, August 31, 2007	21,500,140	0.92	5,736,316

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.

The weighted average fair value of stock options granted during the year ended August 31,2007 was $0.32 per share [2006 - $0.46]. The fair value of each option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Years ended August 31,	
	2007	2006
Expected life (in years)	4.0	4.0
Risk-free interest rate	4.51%	4.13%
Volatility	85.4%	52.2%
Dividend yield	0.00%	0.00%

10. CONTRIBUTED SURPLUS

	2007 $	2006 $
Contributed surplus – beginning of year	2,951,875	1,896,760
Warrants expired	–	140,000
Transfer to common share capital of issue date fair value for options exercised [note 9]	(36,386)	–
Stock-based compensation expense	668,618	915,115
Contributed surplus – end of year	3,584,107	2,951,875

11. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 34.1% [2006 - 34.1%] to loss before income taxes due to the following:

	2007 $	2006 $
Combined Canadian federal and provincial income taxes at expected rate	(5,688,684)	(5,545,575)
Change in valuation allowance	1,137,744	4,261,000
Permanent and other differences	982,563	924,932
Income recognized for tax, not for accounting purposes	–	(2,528,000)
Foreign income taxed at other rates	3,724,740	2,958,389
Costs of issuing equity	(598,183)	(830,000)
Non-capital losses expired	686,030	106,051
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	71,753	783,853
	315,963	130,650

The composition of the Company's future tax assets and liabilities as at August 31, 2007 and 2006 is as follows:

	2007 $	2006 $
Future income tax assets:		
Equipment	1,143,000	1,049,000
Loss carry forwards	6,882,000	6,387,000
Share issue costs	832,000	775,000
SR&ED pool	1,553,000	1,134,000
Other	651,000	579,000
	11,061,000	9,924,000
Valuation allowance	(11,061,000)	(9,924,000)
Future income tax liability:		
Equipment	(77,476)	(62,655)
Intellectual property	(74,340)	(167,000)
Net future income tax liability	151,816	229,655

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, 2007, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately $19,523,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

	$
2008	1,184,000
2009	3,683,000
2010	5,756,000
2014	1,114,000
2026	3,747,000
2027	4,039,000
	19,523,000

The Company also has approximately $5,091,702 of scientific research and experimental development expenditures that may be carried forward indefinitely to be deducted against future Canadian taxable income, and federal investment tax credits of approximately $2,041,609 available to offset future Canadian federal income taxes payable as well as provincial investment tax credits of $1,083,256. The investment tax credits expire commencing in 2010 until 2016. The benefit of the investment tax credits has not been recognized as the realization is not reasonably assured.

At August 31, 2007, the Company also has non-capital loss carry forwards for UK income tax purposes totalling approximately $2,115,000 that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years.

The Company estimates that it has non capital loss carry forwards in Barbados of approximately $19,875,000 that may be carried forward to reduce future taxable income. These losses are expected to expire between 2015 and 2016.

12. GOVERNMENT ASSISTANCE

Under agreements with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of $3.8 million in contributions during the term of the agreement. In exchange for these contributions, the Company has agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over $10,000,000 until August 31, 2011. To date the Company has paid and accrued approximately $782,357 to TPC in royalties.

During the year ended August 31, 2005, the Company determined that it had received an overpayment from TPC of $22,063 and accordingly recorded a liability for this amount. The Company has received further communication from TPC dated May 29, 2007. See note 14[b] – Commitments and Contingencies.

13. CAPITAL LEASE OBLIGATIONS

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

	2007 $	2006 $
Minimum lease payments	52,977	–
Interest at 6.75%	(5,011)	–
Lease principal obligation	47,966	–
Current portion	(15,396)	–
	32,570	–

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

	$
2008	18,163
2009	18,163
2010	16,651
	52,977

14. COMMITENTS AND CONTINGENCIES

[a] The Company has lease commitments for office premises and equipment with remaining terms of up to five years. In addition, the Company has a commitment to pay a royalty of $15 USD per $100 USD of licenses sold of certain software. In the event the cumulative royalty is less than $150,000 USD, the Company must pay the difference between the cumulative amount paid and the $150,000 USD on November 30, 2008. The royalty and minimum lease payments in each of the next five years are approximately as follows:

	$
2008	1,385,979
2009	1,447,725
2010	1,197,107
2011	514,609
2012	391,297
	4,936,717

[b] The Company has received correspondence from the Industrial Technology Office ("ITO" formerly "TPC") dated May 29, 2007 indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and a request for repayment of approximately $929,183 in addition to the already recorded $22,063 (see note 12 – Government Assistance) will be made.

The Company has evaluated the correspondence and the contribution agreement, and has engaged in a dialogue with the ITO in order to arrive at a final determination of eligibility of these costs under the program. The original agreement provides for alternative dispute resolution processes to resolve disputes relating to the agreement, which may be pursued in the event that the parties are unable to reach agreement on eligibility of these costs. At this time, the Company is unable to assess the likelihood of repayment of the requested amounts or arrive at an estimate for the quantum of any future negotiated repayments. Any amount the Company pays the ITO in excess of the accrued $22,063 will result in an additional loss that would be recorded in the period of the determination that the amount is owed.

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

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

Credit and foreign currency risk

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

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

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

16. DERIVATIVE FINANCIAL INSTRUMENTS/FOREIGN EXCHANGE CONTRACTS

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

The Company may purchase foreign exchange forward contracts to hedge sales to customers and expenditures expected to occur in the near future denominated in US dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at August 31, 2007, the Company had no foreign exchange contracts. During fiscal 2007, the Company did not enter into foreign exchange contracts. For fiscal 2006 the Company recorded a foreign exchange loss of $6,800 related to these types of 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:

	2007 $	2006 $
United States	450,387	280,828
Canada	842,961	963,623
Asia	100,373	–
Europe	85,686	116,381
	1,479,407	1,360,832

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

	2007 $	2006 $
United States	11,126,766	9,656,845
Canada	1,158,682	746,597
Europe	7,215,134	7,721,924
Other	205,212	532,351
	19,705,794	18,657,717

The Company earned revenue from the following sources:

	2007 $	2006 $
Hardware	921,812	1,887,058
Software	1,984,084	1,832,281
Services	16,799,898	14,938,378
	19,705,794	18,657,717

Significant customers

Two customers accounted for more than 10% of sales for the year ended August 31, 2007. Two customers accounted for more than 10% of sales for the year ended August 31, 2006.

	% of Sales		% of Accounts Receivable	
	2007	2006	2007	2006
Customer 1	26%	17%	44%	17%
Customer 2	24%	3%	16%	1%
Customer 3	6%	11%	4%	–
	56%	31%	64%	18%

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.

OFFICERS & DIRECTORS

Back Row: David Manuel, Mark Longo, Randy Kath, Mark Johnston
Front Row: Souheil Gallouzi, David Fischer, Glenda Dorchak

Officers of the Company

Glenda M. Dorchak
Chief Executive Officer

David Fischer
Senior Director Finance and Acting Chief Financial Officer

Souheil Gallouzi
Vice President and General Manager, Product Marketing and Development

Mark Johnston
Executive Vice President and General Manager, Worldwide Sales and Business Development

Randy Kath
Chief Technology Officer

Mark J. Longo
Vice President of Corporate Development, General Counsel and Corporate Secretary

David Manuel
Executive Vice President and General Manager, Global Engineering Operations

Board of Directors

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

Robert J. Gayton
(Lead Independent Director)
Director since 1995
Member: Audit Committee and Corporate Governance and Nominating Committee

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

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

Joe Heel
Director since 2007
Member: Compensation Committee

Ketan Kamdar
Director Since 2007
Member: Corporate Governance and Nominating Committee

Andrew McLeod
Director since 2006

Vincent P. Schiralli
Director since 2003

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INDEPENDENT AUDITORS

Ernst & Young LLP
Vancouver, BC

STOCK LISTING

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

ANNUAL MEETING

Thursday, December 13, 2007
10:00 a.m. Pacific Standard Time
Delta Vancouver Suites
550 West Hastings Street
Vancouver, BC

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