



INTRINSYC SOFTWARE INTERNATIONAL, INC.

QUARTERLY REPORT

Second Quarter Fiscal 2008

For the three and six months ended June 30, 2008



Chief Executive Officer Letter

The second quarter of 2008 demonstrated sustained financial performance in 2008 at substantially higher revenue levels than quarterly results from prior years. Results came from strength in our engineering services business and a continued increase in Soleus revenues, which supports our transition to a software business model. When totaling all revenues attributable to the Company's software solutions, including licensing, royalties, maintenance, support and software-related services, the contribution was 23 percent of overall revenues as compared to 18 percent in the prior quarter.

Our financial results for the period were further highlighted by generating \$2.6 million in gross profit which is the largest quarterly gross profit recorded over the past two years and reflects a gross margin percentage of 47%. Our cash position at the end of the second quarter was \$32 million before \$2 million in expenses for the purchase of certain assets and operations from Destinator Technologies Inc. (DTI), resulting in a net cash position of \$30 million.

In the second quarter, we achieved a number of milestones that will enable us to further grow our revenue and accelerate our software business:

- **First Soleus-based device launched.**
In the quarter, the first Soleus-based production ready device was launched by MiTAC Corporation. MiTAC's Mio Moov 380 is a personal navigation device. The product, released in the Taiwan market initially, is expected to ship in the European market in the coming months.
- **Soleus 3G version released.**
Also in the quarter Intrinsic announced availability of Soleus version 1.50, which supports third-generation (3G and 3.5G) connection speeds and accelerates time-to-market for media-centric handheld devices and is the platform that will enable the mobile device planned for release by another Soleus licensee, Quanta Computer.
- **Symbian Competence Center accreditation achieved.**
The company's unique contribution to the development of Symbian OS handsets was recognized with accreditation as the first North American based, and one of only ten global Symbian Competence Centers. Intrinsic's deep partnership with Symbian continued to provide crucial components such as multimedia and wireless communication technologies to next-generation Symbian handsets.
- **Asset acquisition of Destinator navigation announced.**
On May 20, the company announced plans to acquire certain assets and operations from DTI, including its patent portfolio, navigation software products and ongoing software business. The transaction subsequently closed following the quarter, on July 9, 2008. During the second quarter \$2 million of cash was expended in support of debtor-in-possession funding for DTI which was applied toward the cash component of the \$8.4 million in cash consideration in the purchase price.

The strategic value of this acquisition is measured by how the transaction accelerated Intrinsic's transition to being a global wireless software solution provider. Highlights of the value delivered by the Destinator acquisition include:

1. **Expanding the completeness of the Soleus software solution.**
By adding a GPS navigation application to Soleus, Intrinsic can sell a more complete solution and generate more revenues per design win. Intrinsic launched development actions immediately after the acquisition closed to commence porting the Destinator navigation application into Soleus which is expected to be completed before the end of 2008.

2. **Immediate Software Customer Expansion.**

Many Destinator customers are in the target market for Soleus software and Intrinsic will be able to cross-sell the Destinator navigation application to Soleus customers, and the Soleus platform to navigation customers. Destinator customers include tier one Original Equipment Manufacturers such as Motorola. Intrinsic now delivers the GPS navigation application for the Motorola A1600 MING handset, based on the Destinator software product. This new Motorola device was launched commercially in early July in China.

3. **Immediate increase in software revenues and opportunity to accelerate software contribution as a percent of overall Intrinsic revenue.**

As set out in our prior updates, Intrinsic is shifting to a software business that will operate with the higher gross margin percentage economic model of a software rather than services business. In fiscal 2007 software solutions contributed approximately 11% of overall revenues. Through this acquisition, along with the growing contribution of Soleus, we expect software solutions contribution to represent over one-third of overall 2008 revenues.

4. **Accelerate development of Soleus next generation.**

We believe that the value of software is moving away from the underlying operating system and to the higher software layers which provide the functionality and user experience for consumer handsets and handheld devices. Navigation is a critical technology for developing consumer smart phones and enabling next-generation converged devices and as a result of this acquisition, we are ideally positioned to enable innovation as our existing and future customers deliver compelling products to the marketplace.

The Destinator engineering team includes a low-cost development center in Beijing having extensive expertise in developing wireless solutions based on Windows, Linux and Symbian, which will strengthen our abilities to support existing and future Soleus customers while lowering our software development costs.

We have already begun to leverage the acquired engineering teams and development centers in China and Israel to develop innovative Soleus-based solutions that leverage the new navigation software. We are also planning to enable the Soleus software platform to operate on multiple high-level operating system platforms which will expand our addressable market.

In summary, our second quarter marked further progress in the growth of our Soleus business, the continued health of our Wireless Services business and the execution of a strategic acquisition which improves our capabilities and opportunity to achieve significant growth as a wireless software solutions business. We continue to expect four or more Soleus design wins in 2008, and are seeing expanded customer prospects with the enabling of navigation functionality in Soleus. We also expect our customers to release Soleus-based products to market which will generate revenue growth through royalties. We remain confident about our future prospects and look forward to reporting additional achievements in the second half of the year.

Yours sincerely,

Glenda M. Dorchak
Chairman and Chief Executive Officer

INTRINSYC SOFTWARE INTERNATIONAL, INC.

For the Three and Six Months Ended June 30, 2008

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INTRINSYC SOFTWARE INTERNATIONAL, INC.

Interim Consolidated Financial Statements

For the three and six months ended
June 30, 2008 and May 31, 2007
(Unaudited and expressed in US dollars)



INTRINSYC SOFTWARE INTERNATIONAL, INC.
Consolidated Balance Sheets
(Expressed in U.S. dollars)

	June 30, 2008	December 31, 2007
	<i>(Unaudited)</i>	
ASSETS		
Current assets		
Cash and cash equivalents <i>(note 3)</i>	\$ 30,005,623	\$ 12,153,601
Accounts receivable <i>(notes 4 and 13)</i>	4,487,573	3,595,124
Loan receivable <i>(note 17)</i>	1,975,522	-
Inventory	-	103,812
Prepaid expenses - current	931,777	699,247
Total current assets	37,400,495	16,551,784
Prepaid expenses and deposit <i>(note 17)</i>	630,225	277,580
Equipment <i>(notes 5 and 13)</i>	1,789,948	1,410,663
Goodwill	13,915,621	14,314,345
Deferred acquisition costs <i>(note 17)</i>	1,427,758	-
Intangible assets	-	136,874
Total assets	\$ 55,164,047	\$ 32,691,246
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$4,643,286	\$ 3,368,653
Taxes payable	270,867	246,243
Capital lease obligation	63,090	15,885
Deferred revenue	1,219,769	1,174,587
Total current liabilities	6,197,012	4,805,368
Long term capital lease obligation	113,952	27,442
Future income taxes	74,207	111,163
Total liabilities	6,385,171	4,943,973
Shareholders' equity		
Share capital <i>(notes 6 and 11)</i>	102,603,537	72,257,965
Warrants and underwriters' options <i>(note 11)</i>	4,489,508	4,895,966
Contributed surplus <i>(note 12)</i>	3,766,493	3,152,145
Accumulated other comprehensive income <i>(note 7)</i>	7,789,156	9,222,949
Deficit	(69,869,818)	(61,781,752)
Total shareholders' equity	48,778,876	27,747,273
Total liabilities and shareholders' equity	\$ 55,164,047	\$ 32,691,246

Commitments and contingencies (note 9)

See accompanying notes to unaudited interim consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Consolidated Statements of Operations and Deficit
(Unaudited and expressed in U.S. dollars)

	Three months ended		Six months ended	
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007
Revenue <i>(note 13)</i>	\$ 5,566,017	\$ 4,513,808	\$ 11,121,551	\$ 8,831,036
Cost of sales	2,956,178	2,175,922	5,975,526	4,365,346
	2,609,839	2,337,886	5,146,025	4,465,690
Expenses				
Sales and marketing	1,822,475	1,531,264	3,650,850	2,985,627
Research and development	2,694,824	2,607,454	5,241,471	5,437,671
General and administration	1,794,631	1,249,990	3,615,608	2,459,517
Amortization <i>(note 5)</i>	210,896	180,350	422,704	362,573
Stock-based compensation <i>(notes 11 and 12)</i>	283,367	84,679	567,626	264,723
Technology Partnerships Canada Funding Investment <i>(note 8)</i>	158,682	135,415	182,101	136,894
	6,964,875	5,789,152	13,680,360	11,647,005
Loss before other expense (income) and income taxes	4,355,036	3,451,266	8,534,335	7,181,315
Other expense (income)				
Foreign exchange (gain) loss	52,604	431,626	(161,889)	282,032
Interest income	(254,420)	(82,212)	(426,365)	(131,131)
Loss before income taxes	4,153,220	3,800,680	7,946,081	7,332,216
Income tax expense (recovery)				
Current	110,817	95,257	178,392	229,014
Future	(12,852)	(25,608)	(36,407)	(50,595)
	97,965	69,649	141,985	178,419
Loss for the period	4,251,185	3,870,329	8,088,066	7,510,635
Deficit, beginning of period	65,618,633	46,679,548	61,781,752	43,039,242
Deficit, end of period	\$ 69,869,818	\$ 50,549,877	\$ 69,869,818	\$ 50,549,877
Loss per share (basic and diluted)	\$ 0.03	\$ 0.04	\$ 0.06	\$ 0.08
Weighted average number of shares outstanding	151,002,445	91,014,543	141,273,052	91,014,543

See accompanying notes to unaudited interim consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Consolidated Statements of Comprehensive Loss
(Unaudited and expressed in U.S. dollars)

	Three months ended		Six months ended	
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007
Loss for the period	\$4,251,185	\$ 3,870,329	\$ 8,088,066	\$ 7,510,635
Other comprehensive loss(gain):				
Unrealized losses(gains) on translating financial statements from functional currency to reporting currency	(389,183)	2,178,676	1,433,793	1,634,026
Comprehensive loss	\$ 3,862,002	\$ 6,049,005	\$ 9,521,859	\$ 9,144,661

See accompanying notes to unaudited interim consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Consolidated Statements of Cash Flows
(Unaudited and expressed in U.S. dollars)

	Three months ended		Six months ended	
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007
OPERATING ACTIVITIES				
Loss for the period	(\$ 4,251,185)	(\$ 3,870,329)	(\$ 8,088,066)	(\$ 7,510,635)
Items not involving cash				
Amortization	210,896	180,350	422,704	362,573
Future income taxes	(13,351)	(29,808)	(34,305)	(53,561)
Stock-based compensation	283,367	84,679	567,626	264,723
Changes in non-cash operating working capital				
Accounts receivable	972,849	868,209	(1,058,705)	1,722,575
Inventory	52,034	35,086	102,443	52,893
Prepaid expenses	(707,881)	85,129	(614,872)	105,490
Accounts payable and accrued liabilities	1,186,593	268,611	1,435,242	40,451
Taxes payable	75,182	96,281	31,523	210,274
Deferred revenue	(46,037)	(87,114)	81,012	(164,773)
Cash used in operating activities	(2,237,533)	(2,368,906)	(7,155,398)	(4,969,990)
INVESTING ACTIVITIES				
Purchase of equipment	(312,248)	(91,574)	(558,696)	(250,025)
Loan receivable	(1,998,562)	-	(1,998,562)	-
Deferred acquisition costs	(1,021,461)	-	(1,448,983)	-
Cash used in investing activities	(3,332,271)	(91,574)	(4,006,241)	(250,025)
FINANCING ACTIVITIES				
Issuance of common shares and warrants (<i>notes 6 and 11</i>)	53,957	18,062,361	32,173,707	18,062,361
Share issuance costs (<i>note 6</i>)	-	(1,603,006)	(2,186,676)	(1,603,006)
Repayment of capital lease obligation	(12,437)	-	(16,260)	-
Cash provided by financing activities	41,520	16,459,355	29,970,771	16,459,355
Effect of exchange rate changes on cash and cash equivalents	287,105	911,557	(957,110)	729,476
Increase (decrease) in cash and cash equivalents	(5,241,179)	14,910,432	17,852,022	11,968,816
Cash and cash equivalents, beginning of period	35,246,802	5,086,207	12,153,601	8,027,823
Cash and cash equivalents, end of period (<i>note 3</i>)	\$ 30,005,623	\$ 19,996,639	\$ 30,005,623	\$ 19,996,639
Supplementary information				
Assets acquired under capital leases	\$ 66,055	-	\$ 66,055	-
Interest paid	\$ 2,064	-	\$ 9,157	\$ 170
Income taxes paid	\$ 29,741	-	\$ 281,510	-

See accompanying notes to unaudited interim consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements include the accounts of Intrinsic Software International, Inc. (the “Company”) and its wholly-owned subsidiaries, Intrinsic Software (USA) Inc., Linar Limited, Intrinsic Europe Limited, NMI Electronics Limited and Intrinsic Software (Barbados), Inc. The Company has eliminated all significant intercompany balances and transactions. These unaudited interim consolidated financial statements are stated in United States dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) for interim financial information, on the basis that the Company is a going concern which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations applied on a basis consistent with the audited consolidated financial statements as at and for the four-month period ended December 31, 2007, except as noted below. The unaudited interim consolidated financial statements do not include all information and footnote disclosures required for a set of annual financial statements under Canadian GAAP. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as at and for the four-month period ended December 31, 2007.

The preparation of these unaudited interim consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for all periods presented, have been included. Interim results as at and for the three and six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year or for any other period.

2. SIGNIFICANT ACCOUNTING POLICIES

Except for the change in reporting currency to the U.S. dollar and adoption of the new accounting standards described below, the Company applied the same accounting policies in the preparation of the interim consolidated financial statements as disclosed in Note 2 of its audited consolidated financial statements as at and for the four-month period ended December 31, 2007.

Change in Reporting Currency to the United States Dollar

Effective January 1, 2008, the Company changed its reporting currency to the United States dollar (USD) from the Canadian dollar (CAD). The change in reporting currency was made to enhance comparability of the Company’s results with other publicly traded companies in the industry. The Company has retained the Canadian dollar as its functional currency.

In accordance with the Canadian Institute of Chartered Accountants (“CICA”) Emerging Issues Committee Abstract 130, the consolidated financial statements of the Company are translated into United States dollars using the current rate method.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Shareholders' equity is translated at the applicable historical rate. Revenue, expense and cash flow items are translated at the exchange rate in effect on the transaction dates. Translation gains and losses are reported as a separate component of shareholders' equity titled Accumulated Other Comprehensive Income.

The financial information for all prior periods is presented in United States dollars as if the United States dollar had been used as the reporting currency during those periods.

Changes in Accounting Policies

Effective January 1, 2008, the Company retroactively without restatement adopted the following new accounting standards issued by the CICA.

- a) Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments to an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. These sections replace Section 3861, "Financial Instruments – Disclosure and Presentation".
- b) Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.
- c) Section 3031, "Inventories", which replaced Section 3030, "Inventories". Under the requirements of the new standard, inventories will be measured at the lower of cost and net realizable value. Cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects will be assigned by using a specific identification of their individual costs, Consistent use of either first-in, first-out or weighted average cost is prescribed for other inventories. The reversal of previous write-downs to net realizable value occurs when there is a subsequent increase in the value of the inventories.
- d) The Company has adopted the additional requirements of the CICA Handbook Section 1400, "General Standards of Financial Statements". The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

The adoption of these standards did not have any impact on the Company's consolidated financial statements as at and for the three and six month periods ended June 30, 2008. See notes 15 and 16.

Future Accounting Changes

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

3. CASH AND CASH EQUIVALENTS AND OPERATING LINE OF CREDIT

a) Cash and Cash Equivalents

	June 30, 2008	December 31, 2007
Cash	\$30,005,623	\$ 12,153,601

b) Operating Line of Credit

The Company has an established operating line of credit for borrowings up to CAD \$5,000,000, bearing interest at prime rate plus 0.5%. Prime rate was 4.75% at June 30, 2008 [December 31, 2007 – 6.0%]. The line is collateralized by eligible receivables and a general security agreement over all assets of the Company. There was no borrowing outstanding against the operating line of credit as at June 30, 2008 and December 31, 2007.

4. ACCOUNTS RECEIVABLE

	June 30, 2008	December 31, 2007
Trade and miscellaneous receivables	\$4,214,445	\$ 3,576,945
Unbilled revenue	273,128	18,179
	<u>\$4,487,573</u>	<u>\$ 3,595,124</u>

5. AMORTIZATION

	Three Months Ended		Six Months Ended	
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007
Equipment	\$154,617	\$ 110,740	\$287,910	\$ 225,388
Intangible assets	56,279	69,610	134,794	137,185
	<u>\$210,896</u>	<u>\$ 180,350</u>	<u>\$422,704</u>	<u>\$ 362,573</u>

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statement

(Unaudited and expressed in U.S. dollars)

6. PUBLIC OFFERING

On February 7, 2008, the Company announced that it had entered into an agreement with a group of underwriters in connection with a public offering of common shares. The offering closed on February 27, 2008 and a total of 28,600,000 shares were sold at an offering price of CAD \$1.05 per share for gross proceeds of approximately \$30,234,204 (CAD \$30,030,000) with net proceeds of approximately \$28,047,304 (\$27,856,582 CAD) after deducting underwriters' fees and estimated expenses.

In addition, the underwriters were granted an underwriters' over-allotment option to increase the offer by up to 4,290,000 shares for a period of 30 business days following the closing of the financing. The over-allotment option expired unexercised on April 10, 2008.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

	June 30, 2008	December 31, 2007
Balance - beginning of period	\$ 9,222,949	\$ 7,097,801
Unrealized foreign currency translation gains (losses)	(1,433,793)	2,125,148
Balance – end of period	\$7,789,156	\$ 9,222,949

8. GOVERNMENT ASSISTANCE

Under agreements with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of CAD \$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 CAD \$10,000,000 until August 31, 2011. To date the Company has paid and accrued approximately CAD \$966,157 to TPC in royalties.

During the year ended August 31, 2005, the Company determined that it had received an overpayment from TPC of CAD \$22,063 and accordingly recorded a liability for this amount. The Company has received further communication from TPC dated January 18, 2008 and April 30, 2008. See note 9 - Commitments and Contingencies.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

9. COMMITMENTS AND CONTINGENCIES

- a) The Company has lease commitments for office premises and equipment with remaining terms of up to five years. In addition, the Company has a commitment to pay a royalty of USD \$15 per \$100 of licenses sold of certain software licenses. In the event the cumulative royalty is less than \$150,000, the Company must pay the difference between the cumulative amount paid and the \$150,000 on November 30, 2008. As at December 31, 2007, the Company had accrued the remaining balance owing as management has determined that future sales under this agreement are unlikely. The aggregate of royalty and minimum lease payments in each of the next five years are approximately as follows:

	June 30, 2008
2008	\$ 878,124
2009	1,430,011
2010	1,184,072
2011	525,748
2012	212,275
	<u>\$ 4,230,230</u>

- b) The Company has received correspondence from the Industrial Technologies Office (“ITO” formerly “TPC”) dated January 18, 2008 and April 30, 2008 indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and that a invoice will be issued to the Company for approximately \$929,183 CAD in addition to the already recorded \$22,063 CAD (see note 8 – Government Assistance).

The Company evaluated the correspondence dated January 18, 2008 and the original contribution agreement, and had engaged in a dialogue with the ITO in order to arrive at a final determination of eligibility of these costs under the program. The letter received from the ITO dated April 30, 2008 indicated that ITO had reviewed the Company’s arguments as to the eligibility of these costs and maintained its position that the costs outlined previously were not eligible and that an invoice as outlined above will be issued to the Company. The Company continues to believe the costs are eligible under the program and has determined it will continue to vigorously defend its position with the ITO. The ITO has not issued an invoice to the Company to date. The Company and the ITO have met after receipt of the April 30, 2008 letter, and continue to communicate with the goal of reaching a resolution. 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 possible future 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.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

10. EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS

	Three Months Ended		Six Months Ended	
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007
Benefit costs	\$222,597	\$ 166,286	\$400,122	\$ 296,014

The Company matches employees' retirement savings contributions to registered pension 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.

11. SHARE CAPITAL

Authorized

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

Issued

	Number of common shares	Amount
Outstanding, December 31, 2007	119,693,986	\$ 72,257,965
Shares issued for cash in connection with stock options exercised	296,704	162,927
Shares issued in connection with warrants exercised	1,386,000	857,904
Shares issued in connection with compensation options exercised	1,028,213	917,701
Non-cash transfer from contributed surplus pursuant to exercise of options (<i>note 12</i>)	-	122,648
Non-cash transfer from warrants and underwriters' options pursuant to exercise of warrants	-	184,512
Non-cash transfer from warrants and underwriters' options pursuant to exercise of compensation options	-	52,576
Shares issued for cash in connection with public offering (<i>note 6</i>)	28,600,000	28,047,304
Outstanding, June 30, 2008	151,004,903	\$ 102,603,537

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

11. SHARE CAPITAL (cont'd.)

Share option plan

The Company has a rolling incentive stock option plan. Under the terms of the Company's stock option plan, the Board of Directors may grant options to directors, officers, employees and service providers equal to the lower of: (i) up to 10% of issued and outstanding common shares of the Company from time to time less one share; and, (ii) 30,000,000 shares. The plan provides for the granting of options at the closing price of the Company's stock on the day prior to the grant date. Options granted generally vest over three years with the first one-third vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five year term. A summary of the Company's share option activity for the six months ended June 30, 2008 is as follows:

	Number of common shares	Outstanding options Weighted average exercise price (in Canadian dollars)
Outstanding, December 31, 2007	9,677,500	\$ 0.81
Options granted	2,364,400	1.40
Options exercised	(296,704)	0.55
Options cancelled	(598,736)	0.99
Outstanding, June 30, 2008	11,146,460	\$ 0.93

The following table summarizes the share options outstanding at June 30, 2008:

Options outstanding				Options exercisable	
Range of exercise price (in Canadian dollars)	Number of common shares	Weighted average remaining contractual life	Weighted average exercise price (in Canadian dollars)	Number exercisable	Weighted average exercise price (in Canadian dollars)
\$ 0.39 – 0.74	3,740,740	3.38	\$ 0.58	1,859,891	\$ 0.55
\$ 0.75 – 0.90	2,632,775	3.27	0.82	1,323,020	0.84
\$ 0.91 – 1.80	4,772,945	2.62	1.26	1,412,469	1.12
	11,146,460	3.03	\$ 0.93	4,595,380	\$ 0.81

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

11. SHARE CAPITAL (cont'd.)

Warrants & underwriters' compensation options

	Outstanding warrants and underwriters' compensation options		
	Number of warrants and underwriters' options	Weighted average exercise price (in Canadian dollars)	Amount
Outstanding, December 31, 2007	21,300,140	\$ 0.93	\$ 4,895,966
Compensation options exercised	(1,028,213)	\$ 0.90	(52,576)
Compensation options and warrants expired	(869,357)	\$ 0.90	(169,370)
Warrants exercised	(1,386,000)	\$ 0.62	(184,512)
Outstanding, June 30, 2008	18,016,570	\$ 0.95	\$ 4,489,508

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

	Number of options	Exercise (in Canadian dollars)	Expiry date
Warrants issued October 3, 2005	2,284,968	\$ 0.62	October 3, 2010
Warrants issued March 30, 2006	13,398,201	\$ 1.05	March 29, 2010
Compensation options issued May 10, 2007	1,666,700	\$ 0.60	May 9, 2009
Compensation options issued June 7, 2007	152,595	\$ 0.60	June 6, 2009
Compensation warrants issued in connection with March 30, 2006 financing	514,106	\$ 1.05	March 30, 2010
Outstanding, June 30, 2008	18,016,570		

During the six months ended June 30, 2008, 1,028,213 compensation options issued as part of the March 30, 2006 financing were exercised for cash proceeds of \$917,701. Each compensation option was exercised into one common share and one half a compensation warrant. Each whole compensation warrant is exercisable into one common share at \$1.05 and expires on March 30, 2010. As a result of this exercise, 514,106 whole compensation warrants remain outstanding. The balance of the previously issued compensation options and the related compensation warrants expired unexercised on March 30, 2008.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statement

(Unaudited and expressed in U.S. dollars)

11. SHARE CAPITAL (cont'd.)

The weighted average fair value of stock options granted during the three and six months ended June 30, 2008 was CAD \$0.44 per share and CAD \$0.31 per share, respectively [no options were issued during the three months ended May 31, 2007, CAD \$0.31 per share for the six months ended May 31, 2007]. 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:

	Three months ended		Six months ended	
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007
Expected life (in years)	4.0	N/A	4.0	4.0
Risk-free interest rate	3.16%	N/A	2.92%	4.10%
Volatility	85.7%	N/A	85.6%	81.5%
Dividend yield	0.0%	N/A	0.0%	0%

12. CONTRIBUTED SURPLUS

	June 30, 2008	December 31, 2007
Balance – beginning of period	\$ 3,152,145	\$ 2,920,258
Transfer to common share capital pursuant to exercise of options (<i>note 11</i>)	(122,648)	(171)
Transfer from warrants and underwriters' options for expired compensation options (<i>note 11</i>)	169,370	-
Stock-based compensation expense	567,626	232,058
Balance – end of period	\$ 3,766,493	\$ 3,152,145

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statement

(Unaudited and expressed in U.S. dollars)

13. SEGMENTED INFORMATION

Operating segments

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

Geographic information

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

	June 30, 2008	December 31, 2007
United States	\$ 455,170	\$ 424,829
Canada	1,137,995	865,735
Asia	196,783	116,775
Europe	-	3,324
	<u>\$1,789,948</u>	<u>\$ 1,410,663</u>

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007
United States	\$1,927,009	\$2,523,882	\$4,024,722	\$ 5,252,833
Canada	140,239	325,628	334,554	605,432
Europe	2,748,617	1,604,869	5,438,765	2,871,777
Other	750,152	59,429	1,323,510	100,994
	<u>\$5,566,017</u>	<u>\$4,513,808</u>	<u>\$11,121,551</u>	<u>\$ 8,831,036</u>

Significant customers

In each respective period, a combination of two of the Company's largest customers accounted for the following percentage of the Company's total revenues, as indicated below:

	% of Sales Three Months Ended		% of Sales Six Months Ended		% of Accounts Receivable June 30, 2008
	June 30, 2008	May 31, 2007	June 30, 2008	May 31, 2007	
Customer 1	47%	25%	45%	23%	48%
Customer 2	13%	-	16%	-	16%
Customer 3	1%	28%	1%	28%	-
Total	<u>61%</u>	<u>53%</u>	<u>62%</u>	<u>51%</u>	<u>64%</u>

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

14. RESTRUCTURING

On November 7, 2007, the Company announced that it had entered into a consultation period for its engineering operations in the United Kingdom, as required under UK law, whereby the Company would propose to close the operation before the end of 2007. The consultation period was completed during the four months ended December 31, 2007. As at June 30, 2008, the Company is in the process of winding up these operations.

The following table summarizes the expenses recorded by the Company and the remaining liabilities as at June 30, 2008. The balance of \$26,777 below is included in accounts payable and accrued liabilities.

	Employee Related Costs	Loss on Disposal of Equipment	Office Related Costs	Other Costs	Total
Balance at August 31, 2007	-	-	-	-	-
Charges	\$475,299	\$66,502	\$75,379	\$46,627	\$663,807
Settlements	204,884	66,502	67,470	18,533	357,389
Balance at December 31, 2007	270,415	-	7,909	28,094	306,418
Settlements	270,415	-	7,909	1,317	279,641
Balance at June 30, 2008	-	-	-	\$26,777	\$26,777

15. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders.
- To ensure sufficient liquidity to enable the internal financing of capital projects thereby facilitating its expansion.
- To maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Company considers the items included in the consolidated statement of shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statement

(Unaudited and expressed in U.S. dollars)

16. FINANCIAL INSTRUMENTS

a) Fair Value Disclosure

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value at the quarter-end dates due to the short-term maturity of these instruments.

b) Risk Management

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, and interest rate risk are provided below.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and foreign exchange option contracts. The Company limits its exposure to credit risk with respect to cash and cash equivalents by investing available cash in short-term deposits with Canadian financial institutions and commercial paper with a rating not less than R1. With respect to accounts receivable, the Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

As at June 30, 2008 and December 31, 2007 the Company's exposure to credit risk for these financial instruments was as follows:

	June 30, 2008	December 31, 2007
Cash and cash equivalents	\$30,005,623	\$ 12,153,601
Accounts receivable	4,487,573	3,595,124
	<u>\$34,493,196</u>	<u>\$ 15,748,725</u>

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within one month. As at June 30, 2008, the Company had \$30,005,623 in cash and cash equivalents in addition to \$5,000,000 of available credit facilities. Cash equivalents can generally be redeemed on demand.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

16. FINANCIAL INSTRUMENTS (cont'd.)

Foreign Currency Risk

Although substantially all of the Company's revenues are received in US dollars, the Company incurs operating costs and has outstanding indebtedness denominated in Canadian dollars as well as a number of foreign currencies. 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. A 10% change in the US to Canadian dollar exchange rate on the June 30, 2008 balances would have an approximate \$693,000 impact on net income. The Company may purchase foreign exchange forward contracts to hedge sales to customers and expenditures expected to occur in the near future in US dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at June 30, 2008 and as at December 31, 2007 the Company did not have any outstanding foreign exchange contracts nor did the Company enter into any foreign exchange contracts during the respective periods then ended.

A 10% strengthening (weakening) of the Canadian dollar against the US dollar would also impact the reporting currency balance sheet values with an offsetting adjustment of approximately \$4.4 million to other comprehensive income.

Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily interest earned on its cash and cash equivalents. The Company has performed sensitivity analysis on interest rate risk at June 30, 2008 to determine how a change in interest rates would impact equity and net earnings. During the three months ended June 30, 2008, the Company earned \$256,000 of interest income on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the quarter would have increased or decreased equity and net earnings by approximately \$82,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Notes to Consolidated Financial Statement
(Unaudited and expressed in U.S. dollars)

17. SUBSEQUENT EVENT

Destinator Technologies Inc. Acquisition

On July 9, 2008, the Company acquired certain assets and operations of Destinator Technologies Inc. ("DTI"), inclusive of wholly owned subsidiaries located in China and Israel, a multinational developer of wireless software for global positioning system ("GPS") devices and navigation software for wireless handsets (the assets and operations are collectively referred to as "Destinator" in this note 17).

The business combination will be accounted for using the purchase method of accounting, with the Company being identified as the acquirer and Destinator as the acquiree.

The aggregate purchase price was \$15.9 million and consisted of the following consideration:

Cash	\$ 8,400,000
Common shares of the Company (11.0 million issued by the Company)	5,522,000
Estimated acquisition costs	<u>1,990,000</u>
	<u>\$15,912,000</u>

Included in the above cash consideration of \$8.4 million is deferred consideration of \$4.9 million which will be reduced by any negative working capital of the acquired subsidiaries as at the date of acquisition.

As part of this transaction on May 16, 2008 the Company provided a Debtor in Possession loan of USD \$2.0 million to DTI so that DTI could fund short term working capital requirements. This loan appeared as a "Loan Receivable" on the Company's Consolidated Balance Sheets as at June 30, 2008 and Statement of Cash Flows for the quarter ended June 30, 2008. The loan bears interest at prime plus 4% and is due the earlier of sixty days and the closing date of the purchase agreement. The loan is collateralized by a fixed and specific charge and lien on all of DTI's current and future assets, undertakings and properties of every nature and kind.

Prepaid expenses and deposit as at June 30, 2008 includes a deposit of \$454,000 made by the Company for the acquisition of Destinator.

The purchase price allocation has not been completed at the time of this filing. The majority of the purchase price will be allocated to intangible assets and goodwill.

18. COMPARATIVE FIGURES

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period's consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Six Months ended June 30, 2008

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as of August 12, 2008, ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of Intrinsic Software International, Inc. ("Intrinsic" or the "Company") as at and for the three and six month periods ended June 30, 2008 and the audited consolidated financial statements as at and for the four-month period ended December 31, 2007, prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

On September 1, 2007, the Company changed its fiscal year-end from August 31 to December 31. The current fiscal period ended June 30, 2008 consists of operations as at and for the three and six month periods then ended. Comparative figures are as at and for the three and six month periods ended May 31, 2007.

All amounts are presented in United States dollars unless otherwise noted. All referenced materials as well as additional information and disclosures regarding the Company, including the Annual Information Form ("AIF") for the four-month period ended December 31, 2007, are available at www.sedar.com.

Forward-Looking Statements

The following MD&A may contain certain information of a forward-looking nature. Such information may include estimates, projections or statements relating to the Company's business plans, objectives and expected operating results. These statements generally are identified by words such as "expects," "anticipates," "believes," "intends," "estimates," "predicts," "potential," "targeted," "plans," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risks and Uncertainties". The Company disclaims any intent or obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

Intrinsic provides wireless software solutions that enable next-generation handheld products, including mobile handsets, smartphones and converged devices. The Company's software products and engineering services help device makers, service providers and silicon providers deliver wireless products with faster time-to-market and improved development cost. Intrinsic is the licensor of the Soleus software platform built on top of Windows® Embedded CE for consumer handset development. Intrinsic is a Microsoft® Windows® Embedded Gold Partner, the 2007 Windows Embedded Excellence Award winner for System Integrator and 2008 Excellence Award winner for Soleus, and a Symbian Platinum Partner.

The Company was incorporated under the laws of Alberta on August 31, 1992 under the name I.T.C. Microcomponents Inc. and continued under the laws of British Columbia on July 19, 1995. The Company changed its name to Intrinsic Software, Inc. on June 16, 1997. 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 Intrinsic Software, Inc. to Intrinsic Software International, Inc. The Company's principal business office is 10th Floor, 700 West Pender Street, Vancouver, British Columbia, V6C 1G8, telephone (604) 801-6461, fax (604) 801-6417 and its registered office is Suite 2600, Three Bentall Centre, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3. The Company is listed on the Toronto Stock Exchange (TSX) under the trading symbol ICS.

Effective January 1, 2008, the Company changed its reporting currency to the United States dollar (USD) from the Canadian dollar (CAD). The change in reporting currency was made to enhance comparability of the Company's results with other publicly traded companies in the industry. The Company has retained the Canadian dollar as its functional currency.

The consolidated financial statements of the Company are translated into United States dollars using the current rate method. Assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Shareholders' equity is translated at the applicable historical rate. Revenue, expense, and cash flow items are translated at the exchange rate in effect on the transaction dates. Translation gains and losses are reported as a separate component of shareholders' equity titled, Accumulated Other Comprehensive Income.

The financial information for all prior periods is presented in United States dollars as if the United States dollar had been used as the reporting currency during those periods.

Corporate Summary

The Company is a wireless software solutions company offering proprietary software products on a licensed basis and providing systems integration services for the rapidly growing market of wireless handheld products, which includes consumer mobile handsets, personal navigation devices, smartphones and other consumer converged devices. The Company is comprised of two main businesses, the wireless software solutions business and the wireless engineering services business.

Intrinsyc's wireless systems engineering business, which is currently the largest single source of the Company's revenue, began as a general engineering service business but has recently focused specifically on wireless engineering services. The wireless software division is responsible for the development of the Company's licensable Soleus software product for wireless and handheld devices. The wireless software business released its first product to market in December 2006. These products and services are sold to original equipment manufacturers (OEMs), original device manufacturers (ODMs), software and silicon providers and telecommunications service providers who deploy wireless products and services such as consumer mobile handsets. The Company's software products and engineering services generate value for their customers by simplifying complex wireless technology development, thereby allowing increased flexibility in design, which in turn enables a more rapid response to the demand for new features or services from end users. The Company has strategically positioned its product and service offerings to capitalize on the anticipated convergence of four industries: telecommunications; computing; entertainment; and consumer electronics related to mobility products and services. Intrinsyc believes these trends will result in increased demand for its products and services. Management believes that the Company's products, such as Soleus and its systems integration services, are key enablers in delivering new consumer handheld products including mobile handsets, smart phones and converged devices.

Intrinsyc markets its products and services through a worldwide sales and business development team based in offices located in Canada, the United States and Taiwan. Management believes that the recent expansion of regional sales operations to Taiwan and the United States will allow the Company to reach key markets and prospective customers that will accelerate revenue growth. In 2007, the Company also implemented a strategy to partner with leading silicon vendors in order to create an initial installed base of the Soleus software platform on their computer chipsets enabling prospective OEMs to test and evaluate Soleus more easily. Management believes these strategic alliances will assist both the silicon vendor and the Company to present an integrated handheld platform solution, which in turn will strengthen the market position of Soleus with leading handset OEMs around the world.

On July 9, 2008, the Company acquired certain assets and operations of Destinator Technologies Inc. ("DTI"), inclusive of wholly owned China and Israel subsidiaries, a multinational developer of wireless software for global positioning system ("GPS") devices and navigation software for wireless handsets. This transaction expands the Company's mobile software product portfolio with the addition of a navigation oriented application software product offering complementing the Company's Soleus software product offering. Key assets acquired by Intrinsyc include:

- Highly skilled wireless software development centers in China and Israel;

- Strategic GPS and wireless software products, including 17 patents granted or pending;
- Existing streams of software revenue from migrated contracts and tier one customers including Motorola Inc. and LG;
- A well established sales force; and
- Proven navigation technology fully compatible across all major operating systems.

Significant Events for Second Quarter 2008

Financial Highlights

- Revenue growth of 23% over the comparative three-month period ended May 31, 2007.

Customer Highlights

- Soleus licensee MiTAC International Corp launched the Soleus-based Mio Moov 380 connected Personal Navigation Device (PND) at Computex Taipei.

Alliance Partner Highlights

- Appointed a Symbian Competence Center by Symbian Limited. Intrinsic is one of only ten Symbian Competence Centers worldwide and the only center based in North America
- Won 2008 Microsoft® Windows® Embedded Excellence Award at Microsoft Tech Ed North America 2008.

Marketing Highlights

- Presented multiple wireless handheld devices, based upon the Soleus software platform at ESC Silicon Valley, April 2008.
- Presented Soleus, ported onto a Freescale i.MX31 platform at the 2008 Freescale Technology Forum in Orlando, Florida, June 2008.

Major Corporate Transactions

- Entered into an asset purchase agreement to acquire certain assets and operations of DTI, a provider of wireless software for global positioning system devices and navigation software for wireless handsets. The transaction closed July 9, 2008.

Technological Highlights

- Released Soleus version 1.50, enabling device makers to build handsets that can support third-generation (3G/3.5G) high-speed HSDPA and HSUPA data connections, while also allowing differentiation through unique customization of compelling user-interfaces (UI) and applications.

Selected Quarterly Information

The following table presents selected financial information for the most recently completed eight quarters of the Company:

Balance Sheets

<i>(in US\$ '000's)</i>	June 30, 2008	March 31, 2008	December 31, 2007	August 31, 2007	May 31, 2007	February 28, 2007	November 30, 2006	August 31, 2006
Cash and cash equivalents	\$30,006	\$35,246	\$12,154	\$18,585	\$19,997	\$5,086	\$8,028	\$20,344
Working capital	\$31,203	\$36,494	\$11,746	\$17,575	\$19,428	\$5,772	\$9,448	\$19,905
Total assets	\$55,164	\$57,379	\$32,691	\$37,241	\$38,162	\$22,738	\$27,043	\$39,317
Long term debt	-	-	-	-	-	-	-	\$6,892
Other long term financial liabilities	\$188	\$109	\$139	\$175	\$132	\$150	\$178	\$208
Shareholders' equity	\$48,779	\$52,304	\$27,747	\$32,612	\$34,293	\$19,441	\$23,445	\$27,900

Statements of Operations

<i>(in US\$ '000's, except earnings per share)</i>	Three months ended June 30, 2008	Three months ended March 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007	Three months ended May 31, 2007	Three months ended February 28, 2007	Three months ended November 30, 2006	Three months ended August 31, 2006
Revenue	\$5,566	\$5,556	\$5,260	\$4,288	\$4,514	\$4,317	\$4,455	\$4,395
Cost of sales	2,956	3,020	3,344	2,184	2,177	2,189	2,400	2,343
Gross Margin	2,610	2,536	1,916	2,104	2,337	2,128	2,055	2,052
Expenses								
Sales and marketing	1,822	1,828	2,379	1,727	1,531	1,454	1,182	773
Research and development	2,695	2,547	3,371	2,642	2,607	2,830	2,641	3,281
General and administration	1,795	1,821	2,178	1,199	1,250	1,210	997	1,291
Amortization	211	212	286	213	180	182	159	172
Stock-based compensation	283	284	232	154	85	180	177	141
Technology Partnerships Canada								
Funding Investment	159	23	-	129	135	2	-	122
Total Operating Expenses	6,965	6,715	8,446	6,064	5,788	5,858	5,156	5,780
Loss before other items and income taxes	(4,355)	(4,179)	(6,530)	(3,960)	(3,451)	(3,730)	(3,101)	(3,728)
Other items	(202)	(386)	759	(126)	349	(199)	627	180
Loss before income taxes	(4,153)	(3,793)	(7,289)	(3,834)	(3,800)	(3,531)	(3,728)	(3,908)
Income tax expense	98	44	58	50	70	109	51	45
Loss	(\$4,251)	(\$3,837)	(\$7,347)	(\$3,884)	(\$3,870)	(\$3,640)	(\$3,779)	(\$3,953)
Loss per share	(\$0.03)	(\$0.04)	(\$0.06)	(\$0.03)	(\$0.04)	(\$0.04)	(\$0.05)	(\$0.05)

Financial results for the three months ended June 30

Revenue

Revenues are derived from the provision of services, as well as the licensing of software and the sale of hardware. Service revenue may be derived from software modifications, consulting, implementation, training and integration services. The services provided to a customer will be bundled, to meet the customer's specific needs. The services provided may be of a stand-alone nature, or may be part of a corresponding sale of hardware, software, or both. Additionally, the services provided may be of an on-going nature, such as for post software sales customer support services, or may be for specific consulting and software modification services. Revenue is also generated by way of licensing software products, along with providing related customer services.

The Company's revenues are generated by the following sources:

- Engineering services consisting of software modifications, consulting, implementation, training and integration services;
- Software solutions which include revenue generated from the sale of software licenses, royalties, implementation and other related services, maintenance and support attributable to the Company's Soleus and Enterprise Interoperability software product offerings; and
- Hardware sales.

Revenues generated by the above sources are summarized as follows:

<i>Revenue by Source</i>	Three months ended June 30, 2008	%	Three months ended March 31, 2008	%	Three months ended May 31, 2007	%
Engineering Services	\$3,989,671	72%	\$4,018,646	72%	\$3,904,968	87%
Software Solutions	1,270,567	23%	977,514	18%	502,582	11%
Hardware	305,779	5%	559,375	10%	106,258	2%
Total revenue	\$5,566,017	100%	\$5,555,535	100%	\$4,513,808	100%

Revenue for the three-month period ended June 30, 2008 increased by 23% from the three months ended May 31, 2007, due to increased revenues from the Company's Soleus software offering, together with consistent revenue generation by the Company's wireless engineering services and remained consistent with that of first quarter 2008. Engineering services accounted for the majority of the Company's revenue for both periods.

Engineering services revenue for the three months ended June 30, 2008 and March 31, 2008, respectively, were consistent at \$4.0 million which represents an increase of 2% from \$3.9 million for the three months ended May 31, 2007.

Total revenues attributable to the Company's software solutions increased to 23% of total revenues during the three months ended June 30, 2008 compared to 18% and 11% for the three months ended March 31, 2008 and May 31, 2007, respectively. The growth in software solutions revenue was primarily due to the Company's Soleus software product which accounted for \$579,000 in license, service, maintenance and support revenue for the three months ended June 30, 2008 compared to \$465,000 for the three months ended March 31, 2008 and \$21,000 for the three months ended May 31, 2007.

Hardware revenue increased to \$305,779, accounting for 5% of total revenue compared to \$106,258 or 2% of total revenue for the three months ended May 31, 2007. The increase in hardware revenue is attributable to new shipments completed during the period. The Company announced in 2007 that it planned to cease its reference design platform business in 2008. As a result, increased orders were received as customers placed orders to satisfy their expected demands as experienced in the three months ended March 31, 2008 when hardware revenue accounted for 10% of total revenue. The Company incurred a decline in hardware revenue in the three months ended June 30, 2008. As the Company has no plans to continue investment in its reference design platform business product, future revenues from these products are expected to continue to decline.

To date, the Company has had a significant portion of its revenue derived from engineering services provided to several of its largest engineering services customers. While the Company continues to focus its efforts on developing revenue from its Soleus software platform and diversifying its customer base, it is expected that in the near-term, revenue generation will continue to be concentrated on several customers in its engineering services business. In each respective period, a combination of two of the Company's largest customers accounted for the following percentages of the Company's total revenues:

	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
Revenue	\$3,318,513	\$3,468,586	\$2,392,318
Percentage of total revenue	60%	62%	53%

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

	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
United States	\$1,927,009	\$2,097,714	\$2,523,882
Canada	140,239	194,315	325,628
Other	750,152	573,358	59,429
Europe	2,748,617	2,690,148	1,604,869
	\$5,566,017	\$5,555,535	\$4,513,808

Gross Margin

Gross margins on software licensing revenue are significantly higher than the gross margins obtained on engineering services revenue which are generally in the range of 30% to 40%. As a result, the overall gross margin was a blend of these margins that is weighted towards the services gross margin.

	Three months ended June 30, 2008	%	Three months ended March 31, 2008	%	Three months ended May 31, 2007	%
Revenues	\$5,566,017	100%	\$5,555,535	100%	\$4,513,808	100%
Cost of sales	2,956,178	53%	3,019,349	54%	2,175,922	48%
Gross Margin	\$2,609,839	47%	\$2,536,186	46%	\$2,337,886	52%

Gross margin percentage for the three months ended June 30, 2008 was 47% representing a 1% increase over the three months ended March 31, 2008 of 46%. Gross margin percentage declined from 52% in the three months ended May 31, 2007 to 47% during the three-month period ended June 30, 2008. This is attributable to the Company providing significant wireless engineering services for a specific customer contract completed in 2007 that accounted for the higher than traditional margins. The decline in gross margin from the three months ended May 31, 2007 was also attributable to the execution of several Soleus product related service projects at lower gross margin during the three months ended June 30, 2008 and March 31, 2008, respectively.

Operating Expenses

	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
Total operating expenses	\$6,964,875	\$6,715,485	\$5,789,152
As a percentage of total revenue	125%	121%	128%

Total operating expenses for the Company (comprised of sales and marketing, research and development, general and administration, amortization, stock-based compensation and expenses related to TPC) for the three months ended June 30, 2008 were \$7.0 million representing an increase of 20% over the three-month period ended May 31, 2007 and an increase of 4% over the three months ended March 31, 2008.

The increase in total operating expenses for the three months ended June 30, 2008 of \$249,390 over first quarter 2008 was due primarily to increased costs for research and development expenditures in addition to higher charges for TPC royalties which are payable upon the achievement of certain revenue thresholds being exceeded by the Company.

The increase in total operating expenses for the three months ended June 30, 2008 of \$1.2 million over the three months ended May 31, 2007 was due to increased expenditures in general and administration infrastructure resources to support the Company's expanded global operations, sales and marketing expenses and stock-based compensation in addition to the negative impact attributable to a strengthened Canadian dollar relative to the Company's U.S. dollar reporting currency. The Company's revenue is generated in U.S. dollars with a significant percentage of its operating expenses being incurred in Canadian dollars. The average exchange rate for the Canadian – U.S. dollar appreciated by approximately 12 basis points during the three months ended June 30, 2008 over the three months ended May 31, 2007 resulting in increased expenses reported by the Company for this period due to the impact of the strengthened Canadian dollar.

Sales and Marketing

	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
Sales and marketing	\$1,822,475	\$1,828,375	\$1,531,264
As a percentage of total revenue	33%	33%	34%

The Company maintains a direct sales force, with staff in the United States, Canada, the United Kingdom and Taiwan. A centralized sales and marketing department in Vancouver, Canada supports the worldwide sales activities. Sales and marketing expense consists primarily of salaries and related personnel costs, sales commissions, consulting fees, trade show expenses, marketing collateral, advertising costs and facilities.

Sales and marketing expense for the three months ended June 30, 2008 and March 31, 2008 were consistent at \$1.8 million.

Sales and marketing expense for the three months ended June 30, 2008 of \$1.8 million increased by 19% over the \$1.5 million in the three months ended May 31, 2007. Sales and marketing expense represented 33% and 34% of total revenue for the three months ended June 30, 2008 and May 31, 2007, respectively. The increase in sales and marketing expense of approximately \$300,000 is primarily attributable to the foreign exchange impact due to the strengthened Canadian dollar relative to the U.S. dollar over the two periods, and to the increase of salaries and related benefits expense.

Research and Development

	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
Research and development - Soleus	\$2,683,963	\$2,531,497	\$2,605,844
Other Research and development	10,861	15,151	1,610
Total Research and development	\$2,694,824	\$2,546,648	\$2,607,454
As a percentage of total revenue	48%	46%	58%

The Company has research and development groups located in Bellevue, Washington, Vancouver, BC and Taipei, Taiwan. Research and development expenses relate primarily to salaries and related benefit costs, as well as a portion of the Company's overall facilities costs.

Research and development expenses totaled \$2.7 million for the three months ended June 30, 2008 compared to \$2.5 million for three months ended March 31, 2008 and increased from 46% to 48% expressed as a percentage of total revenue. The increase in research and development costs of approximately \$150,000 in the three months ended June 30, 2008 is attributable to increased salaries and related benefits, travel and other general operating expenses.

Research and development expenses totaled \$2.7 million for the three months ended June 30, 2008 compared to \$2.6 million for the three months ended May 31, 2007 representing an increase of 3%. This increase is primarily attributable to the strengthened Canadian dollar relative to the U.S. dollar during this period.

General and Administration

	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
General and administration	\$1,794,631	\$1,820,975	\$1,249,990
As a percentage of total revenue	32%	33%	28%

General and administration expenses include executive and administrative staff, facilities, public company costs, insurance, corporate variable compensation accruals, accounting and legal fees as well as various general administrative costs.

General and administration expenses for the three months ended June 30, 2008 and March 31, 2008 were relatively consistent at approximately \$1.8 million.

General and administration expenses for the three months ended June 30, 2008 were \$1.8 million compared to \$1.2 million for the three months ended May 31, 2007. The relative weakening of the U.S. dollar relative to the Canadian dollar of approximately 12 basis points for the three months ended June 30, 2008 over the three months ended May 31, 2007 accounted for approximately \$150,000 of the increase in general and administration expenses incurred by the Company. The remainder of the increase in the three-month period ended June 30, 2008 was attributable to increased salaries and related benefits expense due to the addition of eight staff over the period ending May 31, 2007, increased travel expense, incremental administrative operating expenses commencing June 1, 2007 associated with the establishment of the Company's Taiwan office and increased professional fees.

Other Items

	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
Foreign exchange loss (gain)	\$52,604	(\$214,493)	\$431,626
Interest income	(254,420)	(171,945)	(82,212)
Other items	(\$201,816)	(\$386,438)	\$349,414

Other items for the three months ended June 30, 2008 totaled net other income of \$201,816. Net other income for the three months ended June 30, 2008 was attributable to a foreign exchange loss caused by the strengthening of the Canadian dollar in the three months ended June 30, 2008 offset by increased interest income as compared to the three months ended March 31, 2008 attributable to the financing executed by the Company in February 2008. Net other income for the three months ended March 31, 2008 of \$386,438 was attributable to a foreign exchange gain caused by the weakening of the Canadian dollar in the three months ended March 31, 2008 coupled with lower income earned on cash balances during the three months ended March 31, 2008.

Other items for the three months ended June 30, 2008 totaled net other income \$201,816 compared to net other expense of \$349,414 for the three months ended May 31, 2007. Net other income during the three months ended June 30, 2008 consisted of a foreign exchange loss of \$53,000 caused by the strengthening of the Canadian dollar during the period offset by interest income of \$254,000. Interest income was higher during the three months ended June 30, 2008, than the three months ended May 31, 2007, due to higher cash balances, following the completion of a financing in February 2008 with net proceeds of approximately \$28.0 million. The increased foreign exchange loss experienced in the three months ended May 31, 2007 is attributable to the significant strengthening of the Canadian dollar relative to the U.S. dollar during this period.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by (used in):	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended May 31, 2007
Operating activities	(\$2,237,533)	(\$4,917,866)	(\$2,368,906)
Investing activities	(3,332,271)	(673,970)	(91,574)
Financing activities	41,520	29,929,252	16,459,355
Effect of exchange rate changes on cash and cash equivalents	287,105	(1,244,215)	911,557
Increase (decrease) in cash and cash equivalents	(\$5,241,179)	\$23,093,201	\$14,910,432

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at June 30, 2008, the Company had cash and cash equivalents totaling approximately \$30.0 million, with working capital¹ of \$31.2 million, as compared to cash and cash equivalents of \$12.2 million and working capital of \$11.7 million as at December 31, 2007.

Cash used in operating activities for all comparable periods was attributable to research and development expenditures incurred for the Company's Soleus product offering in addition to sales and marketing efforts related to the Soleus product, and overall corporate general and administration activities. Accounts receivable decreased by approximately \$973,000 in the three months ended June 30, 2008, from March 31, 2008, due to the timing of customer receipts, which was offset by an increase of \$1.7 million in accounts payable and accrued liabilities, primarily attributable to the acquisition of Destinator assets on July 9, 2008.

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

Cash used in investing activities rose to \$3.3 million during the three months ended June 30, 2008, due to the advancement of a \$2.0 million short-term loan to DTI, an increase of \$1.0 million for deferred acquisition costs, related to the acquisition of Destinator assets on July 9, 2008, in addition to \$312,000 in capital asset purchases.

The purchase of capital assets related primarily to the expansion of the Company's physical office space in Taipei, Taiwan. The expansion of this office will enable the Company to increase its workforce in Taiwan. As of June 30, 2008, the Taiwan office employed thirty-three full-time staff.

During the three months ended June 30, 2008, cash generated by financing activities was attributable to employee option exercises offset by payments for capital lease obligations. This compares to the three-month periods ended May 31, 2007 and March 31, 2008, during which equity financings resulted in significant positive cash inflow from financing activities.

Staffing levels

The following table summarizes the Company's headcount, by functional group:

	As at June 30, 2008	As at March 31, 2008	As at May 31, 2007
Production engineers	122	119	84
Sales and marketing	31	30	30
Research and development	69	64	75
General and administration	38	36	30
Total	260	249	219

Financial results for the six months ended June 30

	Six months ended June 30, 2008	Six months ended June 30, 2008	Six months ended May 31, 2007	Six months ended May 30, 2007
Revenue	\$11,121,551	100.0%	\$8,831,036	100.0%
Cost of sales	5,975,526	53.7%	4,365,346	49.4%
Gross Margin	5,146,025	46.3%	4,465,690	50.6%
Expenses				
Sales and marketing	3,650,850	32.8%	2,985,627	33.7%
Research and development	5,241,471	47.1%	5,437,671	61.6%
General and administration	3,615,608	32.5%	2,459,517	27.9%
Amortization	422,704	3.8%	362,573	4.1%
Stock-based compensation	567,626	5.1%	264,723	3.0%
Technology Partnerships Funding Investment	182,101	1.6%	136,894	1.6%
Total Operating Expenses	13,680,360	123.0%	11,647,005	131.9%
Loss before other items and income taxes	(8,534,335)	(76.7%)	(7,181,315)	(81.3%)
Other items	(588,254)	(5.3%)	150,901	1.7%
Loss before income taxes	(7,946,081)	(71.4%)	(7,332,216)	(83.0%)
Income tax expense	141,985	1.3%	178,419	2.0%
Loss	(\$8,088,066)	(72.7%)	(\$7,510,635)	(85.0%)

The financial performance for the six months ended June 30, 2008 compared to the six months ended May 31, 2007 is summarized as follows:

- Revenue increased by 26% to \$11.1 million in the six months ended June 30, 2008;
- Gross margin increased 15% to 46.3% in the six months ended June 30, 2008 but declined as a percentage of revenue to 46% from 51% in the six months ended June 30, 2008 compared to the six months ended May 31, 2007;
- Total operating expenses increased 17% in the six months ended June 30, 2008 due primarily to increased investment in sales and marketing and general and administration costs; and
- Other items increased to a net other income of \$588,254 during the six months ended June 30, 2008 due to greater interest income attributable to higher cash balances due to the equity financing in February 2008.

Revenue

<i>Revenue by Source</i>	Six months ended June 30, 2008	%	Six months ended May 31, 2007	%	Change
Engineering Services	\$8,008,317	72%	7,567,342	86%	6%
Software Solutions	2,248,081	20%	911,585	10%	147%
Hardware	865,153	8%	352,109	4%	146%
Total revenue	\$11,121,551	100%	\$8,831,036	100%	26%

Revenue for the six months ended June 30, 2008 increased by 26% to \$11.1 million over the six month period ended May 31, 2007 which is attributable to increased engineering service revenue and the wireless software solutions inclusive of the Soleus product offering. Revenue attributable to software solutions include license, maintenance, support and service revenues generated by the Company's software solutions initiatives.

During each of the six month periods ended June 30, 2008 and May 31, 2007, a significant portion of the Company's total revenues were derived from two large customer orders. These customers accounted for the following percentages of the Company's total revenues as indicated below:

	Six months ended June 30, 2008	Six months ended May 31, 2007	Change
Revenue	\$6,787,099	\$4,536,545	50%
Percentage of total revenue	61%	51%	

The two customers accounting for 51% of the total revenue for the six months ended May 31, 2007 were not the same two customers that accounted for 61% of the total revenue for the six months ended June 30, 2008.

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

	Six months ended June 30, 2008	Six months ended May 31, 2007	Change
United States	\$4,024,722	\$5,252,833	(23%)
Canada	334,554	605,432	(45%)
Other	1,323,510	100,994	1,210%
Europe	5,438,765	2,871,777	89%
	\$11,121,551	\$8,831,036	26%

Revenue for the six months ended June 30, 2008 included \$1.3 million or 12% from primarily Asian – based customers. The Company expects that in the future, the revenue contribution from Asian customers will continue to expand.

Gross Margin

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

	Six months ended June 30, 2008	%	Six months ended May 31, 2007	%	Change
Revenues	\$11,121,551	100%	\$8,831,036	100%	26%
Cost of sales	5,975,526	54%	4,365,346	49%	37%
Gross Margin	\$5,146,025	46%	\$4,465,690	51%	15%

Gross margin for the six months ended June 30, 2008 increased to 51% of total revenue to 46% of total revenue. Revenue for the six months ended May 31, 2007 included a non-recurring engineering services contract that provided higher than traditional margins.

Operating Expenses

	Six months ended June 30, 2008	Six months ended May 31, 2007	Change
Total operating expenses	\$13,680,360	\$11,647,005	17%
As a percentage of total revenue	123%	132%	

Operating expenses expressed as a percentage of revenue declined to 123% in the six months ended June 30, 2008 from 132% in the six months ended May 31, 2007.

Total operating expenses for the six months ended June 30, 2008 increased by \$2.0 million or 17% compared to the six months ended May 31, 2007.

While the Company's revenues are generated in U.S. dollars, a significant percentage of its operating expenses are incurred in Canadian dollars resulting in exposure to foreign exchange fluctuations. The average Canadian to U.S. dollar exchange rate declined by approximately 14% in the six months ended June 30, 2008 compared to the six months ended May 31, 2007 resulting in the Company's increase in operating expense being partially attributable to the strengthened Canadian dollar relative to the U.S. dollar with the remainder attributable to increased sales and marketing and general and administrative expenses.

Sales and Marketing

	Six months ended June 30, 2008	Six months ended May 31, 2007	Change
Sales and marketing	\$3,650,850	\$2,985,627	22%
As a percentage of total revenue	33%	34%	

Total sales and marketing expenses for the six months ended June 30, 2008 increased approximately \$665,000, or 22% when compared to the six months ended May 31, 2007. This increase is partially attributable to the strengthened Canadian dollar relative to the U.S. dollar with the remainder due to increased salary and travel expense to market the Company's Soleus software product offering.

Research and Development

	Six months ended June 30, 2008	Six months ended May 31, 2007	Change
Research and development - Soleus	\$5,215,460	\$5,435,185	(4%)
Other Research and development	26,011	2,486	946%
Total Research and development	\$5,241,471	\$5,437,671	(4%)
As a percentage of total revenue	47%	62%	

Research and development costs for the six months ended June 30, 2008 declined by approximately \$220,000 or 4% over the six months ended May 31, 2007 which is due to the commercialization of the Company's Soleus product.

General and Administration

	Six months ended June 30, 2008	Six months ended May 31, 2007	Change
General and administration	\$3,615,608	\$2,459,517	47%
As a percentage of total revenue	33%	28%	

General and administration expense for the six months ended June 30, 2008 increased by \$1.2 million or 47% when compared to the six months ended May 31, 2007. This increase is partially attributable to the strengthened Canadian dollar relative to the U.S. dollar with the remainder attributable to increased salaries and benefits, travel, professional fees and general operating expenses associated with increased administrative infrastructure implemented for the Company's global expansion to Asia.

Other Items

	Six months ended June 30, 2008	Six months ended May 31, 2007	Change
Foreign exchange loss (gain)	(\$161,889)	\$282,032	(157%)
Interest income	(426,365)	(131,131)	225%
Other items	(\$588,254)	\$150,901	

Other items for the six months ended June 30, 2008 totaled net other income of \$588,254, compared to net other expense of \$150,901 for the six months ended May 31, 2007. Net other income during the six months ended June 30, 2008 consisted of a foreign exchange gain due to the weakening of the Canadian dollar relative to the U.S. dollar during the period as compared to a loss in the comparative period as a result of the strengthening of the Canadian dollar relative to the U.S. dollar. Higher interest income in the current period was due to greater cash balances during the six months ended June 30, 2008 due to the completion of an equity financing in February 2008.

Commitments

The Company continues to have no bank debt, off-balance sheet financing arrangements or significant capital leases. The Company has leased facilities in Canada, Taiwan, and the United States. Minimum royalty and lease payments as at June 30, 2008 are as follows for the years ending December 31:

Contractual Obligations	Total	F2008	F2009	F2010	F2011	F2012
Operating lease obligations	\$4,230,230	\$878,124	\$1,430,011	\$1,184,072	\$525,748	\$212,275

As at August 12, 2008, the Company had 162,004,903 common shares outstanding, inclusive of 11.0 million shares issued in the Destinator acquisition. The Company also had 11,146,460 share options outstanding and 18,016,570 outstanding warrants and underwriters' options as at August 12, 2008.

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 CAD \$3.8 million in contributions during the term of the agreement. In exchange for these contributions, the Company agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over CAD \$10.0 million until August 31, 2011. To date, the Company has paid and accrued approximately CAD \$966,157 to TPC in royalties.

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

The Company has received correspondence from the Industrial Technologies Office ("ITO" formerly "TPC") dated January 18, 2008 and April 30, 2008 indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and that an invoice will be issued to the Company for approximately CAD \$929,183 in addition to the already recorded CAD \$22,063.

The Company continues to believe the costs are eligible under the program and is in discussions with TPC regarding the potential resolution of this matter. As such, the Company continues to defend its position to the ITO. In the event that the ITO maintains its position that these costs are not eligible, the Company has determined it will continue to vigorously defend its position with the ITO. 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 possible future 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”), and makes estimates and assumptions that affect its reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from these estimates. Significant estimates include, but are not limited to, the determination of project expenditures for contracts accounted for on the percentage of completion basis, allowance for doubtful accounts, income tax valuation allowances, goodwill impairment tests and the useful lives and valuation of intangible assets.

The Company’s accounting policies are fundamental to understanding management’s discussion and analysis of operations and financial condition since they involve significant estimates and assumptions used in preparing its consolidated financial statements. These policies are described in note 2 to the audited, consolidated financial statements as at and for the transition four month period ended December 31, 2007 and should be referred to in conjunction with reading the management discussion and analysis. Except as noted below, during the three and six month period ended June 30, 2008, the Company did not adopt any new accounting policies that would have a material impact on its consolidated financial statements, nor did it make changes to existing accounting policies.

On January 1, 2008, the Company adopted the following new accounting policies:

Effective January 1, 2008, the Company changed its reporting currency to the United States dollar (USD) from the Canadian dollar (CAD). The change in reporting currency was made to enhance comparability of the Company’s results with other publicly traded companies in the industry. The Company has retained the Canadian dollar as its functional currency.

The consolidated financial statements of the Company are translated into United States dollars using the current rate method. Assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Shareholders’ equity is translated at the applicable historical rate. Revenue, expense, and cash flow items are translated at the exchange rate in effect on the transaction dates. Translation gains and losses are reported as a separate component of shareholders’ equity titled, Accumulated Other Comprehensive Income.

The financial information for all prior periods is presented in United States dollars as if the United States dollar had been used as the reporting currency during those periods.

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments – Disclosures, and section 3863, Financial Instruments – Presentation. These new standards were effective for fiscal years beginning on or after October 1, 2007. The adoption of these standards did not have a material effect on the financial statements as at and for the three and six month period ended June 30, 2008.

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

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

Inventories

The CICA issued section 3031, Inventories, which replaced section 3030, Inventories. This new standard was effective for fiscal years beginning on or after January 1, 2008. Under the requirements of the new standard, inventories are to be measured at the lower of cost and net realizable value. Cost of inventories that are not ordinarily interchangeable and goods or services produced and segregated for specific projects will be assigned by using a specific identification of their individual costs. Consistent use of either first-in, first-out or weighted average cost is prescribed for other inventories. The reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of the inventories. The adoption of this standard did not have a material effect on the financial statements as at and for the three and six month period ended June 30, 2008.

Going Concern

Effective January 1, 2008, the Company adopted the additional requirements of the CICA Handbook Section 1400 – General Standards of Financial Statements. The additional requirements require management to make an assessment of the Company’s ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. Adoption of these new requirements had no effect on the financial statements as at and for the three and six month period ended June 30, 2008.

Recent Accounting Pronouncements Issued and not yet Adopted

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

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, which are disclosed in the Company’s Annual Information Form, filed March 31, 2008 at www.sedar.com.

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 three and six month period ended June 30, 2008 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 Chief Financial Officer, on a timely basis so that the appropriate decisions can be made regarding public disclosure.

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" issued by the Canadian Securities Administrators. They concluded that as at June 30, 2008, 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.

Form 52-109F2 Certification of Interim Filings

I, George W. Reznik, Chief Financial Officer of Intrinsic Software International, Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Intrinsic Software International, Inc. (the issuer) for the interim period ending June 30, 2008;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
 - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared;
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: August 12, 2008

"George W. Reznik"

George W. Reznik

Chief Financial Officer

Form 52-109F2 Certification of Interim Filings

I, Glenda M. Dorchak, Chief Executive Officer of Intrinsic Software International, Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Intrinsic Software International, Inc. (the issuer) for the interim period ending June 30, 2008;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
 - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared;
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: August 12, 2008

"Glenda M. Dorchak"

Glenda M. Dorchak
Chief Executive Officer