

INTRINSYC SOFTWARE INTERNATIONAL, INC.

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

Management's Discussion & Analysis

This Management's Discussion and Analysis has been prepared by management as of March 12, 2009 and should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Company for the year ended December 31, 2008, which were prepared in accordance with Canadian generally accepted accounting principals. Comparative figures as at and for the four months ended December 31, 2007 and the twelve-months ended August 31, 2007 are also provided. This is as a result of the Company changing its fiscal year-end from August 31 to December 31. All amounts are presented in Canadian dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

Note about Forward-Looking Statements

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

Overview

Intrinsyc provides platform software solutions and navigation/LBS applications that enable next-generation handheld products, including smart phones, and other mobile and embedded devices. The company's products include Destinator[®] navigation and Location Based Services ("LBS") platform, ToBe Gateway Server for delivering content services based on location, the Soleus[®] Transit platform for connected personal navigation devices, Soleus, a complete software platform for mobile device development, and other software and enabling technology. Combined with award winning Engineering Services, Intrinsyc helps device makers, and silicon vendors deliver compelling mobile products with faster time-to-market and improved innovation and quality. Intrinsyc is a Microsoft Windows Embedded Gold Partner and a winner of Windows Embedded Excellence Awards in 2007 and 2008, and is accredited as Symbian and S60 Competence Centers.

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 Intrinsyc 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 Intrinsyc Software, Inc. to Intrinsyc 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.

Corporate Summary

The Company is a mobile software and services company offering proprietary software products on a licensed basis and providing software engineering services for the rapidly growing market of mobile handheld products, which includes consumer mobile handsets, personal navigation devices, smartphones and other embedded devices. The Company offers navigation and LBS solutions and platform solutions comprising a combination of software and services.

Intrinsyc's platform solutions are delivered by the Solutions Engineering organization. Solutions Engineering is currently the largest single source of the Company's revenue. It began as a general engineering service business, but now provides device development expertise including software and services to the mobile and embedded device marketplace. Platform Solutions include our Soleus software platform, for mobile devices, enabling technology, testing tools, and engineering services.

The navigation and LBS solutions are developed and produced by the Mobile Products Development organization. These solutions are sold to original equipment manufacturers (OEMs), original device manufacturers (ODMs), software and silicon providers and telecommunications service providers who deploy mobile products and services such as consumer mobile handsets and personal navigation devices (PNDs). The Company's software products and engineering services generate value for its customers by simplifying complex mobile 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 solutions, such as Destinator®, Soleus®, enabling technology and its systems integration services, are key in delivering innovative devices 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, Mainland China, Israel and Taiwan. Management believes that the recent expansion of regional sales and support operations to Mainland China will allow the Company to reach key markets and prospective customers that will support revenue growth.

In July 2008, the Company acquired certain assets and operations inclusive of wholly owned China and Israel subsidiaries of Destinator Technologies Inc. ("Destinator"), 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 2008

Financial Highlights

- Revenue growth of 41% over the comparative twelve-month period ended August 31, 2007.
- Execution of an equity financing for gross proceeds of \$30.2 million in February 2008.

Customer Highlights

- Entered into a software license agreement to develop a second Soleus-based product with an existing customer.
- Entered into a licensing agreement with Samsung Semiconductor System LSI division for the Company's Soleus software platform product offering.
- Soleus licensee MiTAC International Corp launched the Soleus-based Mio Moov 380 connected Personal Navigation Device (PND) at Computex Taipei.
- InterDigital, Inc. licensed RapidRIL, a radio interface technology developed by Intrinsyc, to support its SlimChip Reference Platform for Windows Mobile devices.
- Announced that the first Soleus units were shipped by customers.

Major Corporate Transactions

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

Alliance Partner Highlights

- Entered into an agreement with Westtek LLC to adapt Westtek's file viewer application, to further strengthen the Soleus platform.
- Appointed as a "Symbian Competence Center" by Symbian Limited. Intrinsyc is one of only ten Symbian Competence Centers worldwide and the only center based in North America
- Awarded 2008 Microsoft® Windows® Embedded Excellence Award at Microsoft Tech Ed North America 2008.
- Appointed as an S60 Competence Center.

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.
- Presented Eight Keys to Successful Consumer Handset Development at ESC China 2008 industry conference.

Major Management and Director Changes

- Appointed Philip Ladouceur as a Director of the Company on January 31, 2008. Mr. Ladouceur was appointed as Chairman of the Board of Directors effective November 13, 2008.
- Appointed George Reznik as Chief Financial Officer of the Company effective April 15, 2008.
- Announced the departure of Glenda Dorchak (Chief Executive Officer and Chairman) effective November 13, 2008.
- Appointed Tracy Rees, Chief Operating Officer, as interim Chief Executive Officer.

Corporate Reorganization

- Corporate operations were streamlined and reduced by way of the execution of a fifty-five percent workforce reduction and other cost reduction initiatives.

Asset Impairment

- Impairment study of goodwill and intangible assets resulted in write-off of goodwill of approximately \$12.8 million and write down of intangible assets of \$6.5 million.

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.

Results of Operations

Financial results for the twelve months ended December 31, 2008

The following analysis of the results of operations for the twelve months ended December 31, 2008 includes comparisons to the twelve-month period ended August 31, 2008. Management believes a comparison of twelve-month results ended December 31, 2008 to four-month results ended December 31, 2007 would provide little insight to the reader regarding the relative performance of the Company, due to the disproportionate duration of the two periods, and therefore will not be provided herein. As such, the twelve-month results ended December 31, 2008 will only be compared to the twelve-month results ended August 31, 2007.

Financial Performance Summary

	Twelve months ended December 31, 2008	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007	Twelve months ended August 31, 2007
Revenue	\$24,719,235	100.0%	\$17,574,483	100.0%
Cost of goods sold	11,707,991	47.4%	8,949,350	50.9%
Gross margin	13,011,244	52.6%	8,625,133	49.1%
Expenses				
Sales and marketing	7,149,756	28.9%	5,895,425	33.5%
Research and development	12,775,487	51.7%	10,720,643	61.0%
Administration	7,659,316	31.0%	4,656,207	26.5%
Amortization	1,858,002	7.5%	734,537	4.2%
Stock-based compensation	1,061,761	4.3%	595,988	3.4%
Technology Partnerships Canada Funding Investment	323,502	1.3%	265,542	1.5%
Total operating expenses	30,827,824	124.7%	22,868,342	130.1%
Loss before other items and income taxes	(17,816,580)		(14,243,209)	
Other items	20,928,082		651,828	
Loss before income taxes	(38,744,662)		(14,895,037)	
Income tax expense	115,220		279,254	
Loss	(\$38,859,882)		(\$15,174,291)	

The financial performance for the twelve months ended December 31, 2008 compared to the twelve months ended August 31, 2007 is summarized as follows:

- Revenue increased by 41% to \$24.7 million in the twelve months ended December 31, 2008;
- Gross margin increased 51% to \$13.0 million in the twelve months ended December 31, 2008 and increased as a percentage of revenue to 53% in the twelve months ended December 31, 2008 from 49% in the twelve months ended August 31, 2007;
- Total operating expenses increased 34% in the twelve months ended December 31, 2008 due to increased investment in sales and marketing, research and development and administration costs; and
- Other items increased during the twelve months ended December 31, 2008 due primarily to the asset impairment charge of \$19.3 million.

Revenue

<i>Revenue by Source</i>	Twelve months ended December 31, 2008	%	Twelve months ended August 31, 2007	%	Change
Engineering Services	\$15,748,100	64%	\$14,982,879	85%	5%
Software Solutions	7,611,145	31%	1,769,492	10%	330%
Hardware	1,359,990	5%	822,112	5%	65%
Total revenue	\$24,719,235	100%	\$17,574,483	100%	41%

Revenue for the twelve months ended December 31, 2008 increased by 41% to \$24.7 million over the twelve-month period ended August 31, 2007. The increase was due to increased software solutions revenue inclusive of the Company's acquisition of Destinator during the year ended December 31, 2008, engineering service revenue, as well as increased hardware revenue. Software solutions revenue, which includes license, maintenance, support and service revenues for both the Soleus product offering, as well as the Destinator navigation software offering, accounted for the majority of the overall revenue increase.

During each of the twelve-month periods ended December 31, 2008 and August 31, 2007, a significant portion of the Company's total revenues were derived from sales to three large customers. These customers accounted for 56% of revenues earned in the twelve months ended December 31, 2008 and 56% of the revenues earned in the twelve months ended August 31, 2007.

The three customers accounting for 56% of the total revenue for the twelve months ended August 31, 2007 were not the same three customers that accounted for 56% of the total revenue for the twelve months ended December 31, 2008.

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

	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007	Change
United States	\$8,855,756	\$9,923,334	(11%)
Canada	375,764	1,033,363	(64%)
Europe	12,035,512	6,434,770	87%
Other	3,452,203	183,016	1,786%
	\$24,719,235	\$17,574,483	41%

Revenue for the twelve months ended December 31, 2008 included \$3.5 million or 14% from primarily Asian based customers. The Company expects that in the future, the revenue contribution from Asian customers will continue to expand.

The current global economic crisis has adversely impacted the software industry and in particular, consumer electronic spending in the sector, which the Company sells its products to through its software customers. As a result, there is significant uncertainty regarding short term demand for the Company's products and services.

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.

	Twelve months ended December 31, 2008	%	Twelve months ended August 31, 2007	%	Change
Revenues	\$24,719,235	100%	\$17,574,483	100%	41%
Cost of sales	11,707,991	47%	8,949,350	51%	31%
Gross margin	\$13,011,244	53%	\$8,625,133	49%	51%

Gross margin for the twelve months ended December 31, 2008 increased to \$13.0 million, and rose from 49% to 53% of total revenue. Revenue for the twelve months ended August 31, 2007 included a non-recurring engineering services contract that provided higher than traditional margins. The improvement in gross margin percentage during the current twelve-month period ended December 31, 2008 can be attributed to the greater contribution from software solutions towards the total revenue. Software solutions, which generate higher gross margins than the Company's other revenue streams, accounted for 31% of total revenue, compared with 10% during the previous twelve-month period.

Operating Expenses

	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007	Change
Total operating expenses	\$30,827,824	\$22,868,342	35%
As a percentage of total revenue	125%	130%	

Operating expenses expressed as a percentage of revenue declined to 125% in the twelve months ended December 31, 2008 from 130% in the twelve months ended August 31, 2007.

Total operating expenses for the twelve months ended December 31, 2008 increased by \$8.0 million or 35% compared to the twelve months ended August 31, 2007.

The majority of the Company's operating expenses are attributable to employee salary and benefits costs, facility costs, travel expense, marketing programs and professional fees.

The increase in operating costs was due primarily to the increased sales and marketing, research and development and administration expenses as well as the additional operating costs as a result of the Destinator acquisition. Personnel increased from 223 at August 31, 2007 to 250 at December 31, 2008 with an average headcount throughout the year of 300.

Included in total operating expenses are non cash based stock compensation expense which increased by 78% to \$1,061,761 due to an increased number of employees receiving stock option grants from the Company and amortization of \$1.9 million which increased from \$735,000 in the prior year. Amortization consisted of \$1.1 million in amortization attributable to the intangible assets acquired from Destinator during the year and \$800,000 attributable to the amortization of equipment.

Due to the current challenging global economic environment which has resulted in increased uncertainty for revenue from the Company's products and services, the Company restructured its operations resulting in significant reduction in employees, facilities and other operating costs in late 2008.

Marketing and Sales

	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007	Change
Marketing and sales	\$7,149,756	\$5,895,425	21%
As a percentage of total revenue	29%	34%	

Total sales and marketing expenses for the twelve months ended December 31, 2008 increased approximately \$1.3 million, or 21% when compared to the twelve months ended August 31, 2007. This increase is due to increased personnel costs of \$800,000 arising from an additional nineteen personnel for the majority of the year, and increased travel and promotion expense of \$500,000.

Research and Development

	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007	Change
Research and development - Soleus	\$9,336,085	\$10,627,031	-12%
Other research and development	3,439,402	93,612	3574%
Total research and development	\$12,775,487	\$10,720,643	19%
As a percentage of total revenue	52%	61%	

Research and development costs for the twelve months ended December 31, 2008 increased by approximately \$2.0 million or 19% over the twelve months ended August 31, 2007, which is due primarily to the additional costs of a larger research and development team, as well as the costs related to the Destinator operations assumed during third quarter 2008.

The majority of the research and development expenses incurred during the above fiscal years is attributable to the Company's investment in its Soleus product offering with the remainder of other research and development expenses attributable to the Company's acquisition of the Destinator navigation software product offering during the year ended December 31, 2008.

Administration

	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007	Change
Administration	\$7,659,316	\$4,656,207	64%
As a percentage of total revenue	31%	26%	

Administration expense for the twelve months ended December 31, 2008 increased by \$3.0 million or 64% when compared to the twelve months ended August 31, 2007. This increase is partially attributable to the addition of costs for the Destinator operations acquired in 2008 of \$650,000, increased salaries and benefits for an additional twelve personnel for the majority of the year of \$900,000, increased travel expense of \$400,000, increased rent and related charges arising from the Taiwan office which opened in September 2007 of \$300,000, increased professional fee of \$450,000 and increased bad debts expense of \$300,000.

Due to the recent decline in the global economic environment, the Company has increased its allowance for potential bad debts arising as at December 31, 2008 in the event that any of its customers encounter financial difficulty.

Other Items

	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007
Foreign exchange loss (gain)	(\$1,570,634)	\$118,433
Interest income	(606,605)	(481,894)
Asset impairment	19,278,706	-
Loss on disposal of equipment	-	2,457
Accretion & amortization - long term debt	-	823,217
Interest expense - long term debt	-	189,615
Restructuring charges	3,826,615	-
Other items	\$20,928,082	\$651,828

Other items for the twelve months ended December 31, 2008 totaled net other expense of \$20.9 million, compared to net other expense of \$651,828 for the twelve months ended August 31, 2007. This was due primarily to restructuring charges of approximately \$3.8 million, the write down of intangible assets of approximately \$6.5 million and the write-off of goodwill of approximately \$12.8 million less foreign exchange gain of approximately \$1.6 million.

During the twelve months ended December 31, 2008, the Company recorded a non-cash expense of \$19.3 million due to the impairment of goodwill of \$12.8 million primarily attributable to acquisitions executed in 2002 and 2003 respectively and \$6.5 million due to the impairment of acquired intangible assets. The impairment of the intangible assets was due to the reduction in anticipated future cash flows attributable to such intangible assets obtained by the Company in its acquisition of Destinator. Specific factors impacting the impairment of such intangible assets comprising of acquired software, customer base, patent portfolio, trademarks and brand include the recent decline in the Company's share price since the acquisition date and the challenging global economic environment which is impacting the target market for such intangible assets.

In addition, the Company incurred total restructuring charges during this period of \$3.8 million including non-cash write-off of redundant assets of \$800,000. The restructuring charges are comprised of employee separation costs, facility exit costs and other related costs.

Higher interest income in the current period was due to greater cash balances during the twelve months ended December 31, 2008, due to the completion of an equity financing in February 2008.

Liquidity and Capital Resources

Cash provided by (used in):	Twelve months ended December 31, 2008	Twelve months ended August 31, 2007
Operating activities	(\$14,285,234)	(\$12,674,631)
Investing activities	(10,981,475)	(516,303)
Financing activities	30,050,788	11,061,964
Effect of exchange rate changes on cash and cash equivalents	(4,337,358)	369,966
Increase (decrease) in cash and cash equivalents	\$446,721	(\$1,759,004)

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at December 31, 2008, the Company had cash totaling approximately \$12.4 million, with

working capital¹ of \$10.7 million, as compared to cash of \$18.6 million at August 31, 2007 and working capital of \$17.8 million.

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 Destinator and Soleus products, and overall corporate administration activities.

Cash used in investing activities for the twelve months ended December 31, 2008 was due to the acquisition of Destinator (approximately \$9.2 million) in addition to \$1.4 million in capital asset purchases.

During the twelve months ended December 31, 2008, cash provided by financing activities was attributable mainly to a corporate financing of approximately \$29.9 million which occurred in February 2008.

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>	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	August 31, 2007	May 31, 2007	February 28, 2007
Cash and cash equivalents	\$12,391	\$19,659	\$30,006	\$35,246	\$12,154	\$18,585	\$19,997	\$5,086
Working capital	\$10,656	\$17,353	\$31,203	\$36,494	\$11,746	\$17,575	\$19,428	\$5,772
Total assets	\$24,841	\$57,757	\$55,164	\$57,379	\$32,691	\$37,241	\$38,162	\$22,738
Long term debt	-	-	-	-	-	-	-	-
Other long term financial	\$39	\$107	\$188	\$109	\$139	\$175	\$132	\$150
Shareholders' equity	\$16,237	\$47,821	\$48,779	\$52,304	\$27,747	\$32,612	\$34,293	\$19,441

Statements of Operations								
<i>(in US\$ '000's, except earnings per share)</i>	Three months ended	Three months ended	Three months ended	Three months ended	Four months ended	Three months ended	Three months ended	Three months ended
	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	August 31, 2007	May 31, 2007	February 28, 2007
Revenue	\$5,728	\$7,870	\$5,566	\$5,556	\$5,260	\$4,288	\$4,514	\$4,317
Cost of goods sold	2,639	3,093	2,956	3,020	3,344	2,184	2,177	2,189
Gross margin	3,089	4,777	2,610	2,536	1,916	2,104	2,337	2,128
Expenses								
Sales and marketing	1,181	2,317	1,822	1,828	2,379	1,727	1,531	1,454
Research and development	3,437	4,097	2,695	2,547	3,371	2,642	2,607	2,830
Administration	1,577	2,466	1,795	1,821	2,178	1,199	1,250	1,210
Amortization	698	738	211	212	286	213	180	182
Stock-based compensation	215	280	283	284	232	154	85	180
Technology Partnerships								
Funding Investment	24	117	159	23	-	129	135	2
Total operating expenses	7,132	10,015	6,965	6,715	8,446	6,064	5,788	5,858
Loss before other items and income taxes	(4,043)	(5,238)	(4,355)	(4,179)	(6,530)	(3,960)	(3,451)	(3,730)
Other items	21,139	377	(202)	(386)	759	(126)	349	(199)
Loss before income taxes	(25,182)	(5,615)	(4,153)	(3,793)	(7,289)	(3,834)	(3,800)	(3,531)
Income tax expense	(148)	121	98	44	58	50	70	109
Loss	(\$25,034)	(\$5,736)	(\$4,251)	(\$3,837)	(\$7,347)	(\$3,884)	(\$3,870)	(\$3,640)
Loss per share	(\$0.15)	(\$0.04)	(\$0.03)	(\$0.04)	(\$0.06)	(\$0.03)	(\$0.04)	(\$0.04)

⁽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.

Financial results for the three months ended December 31, 2008

The following analysis of the results of operations for the three months ended December 31, 2008 includes comparisons to the four-month period ended December 31, 2007 and the three-month period ended August 31, 2007

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 Destinator, 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 December 31, 2008	%	Four months ended December 31, 2007	%	Three months ended August 31, 2007	%
Engineering Services	\$3,032,103	53%	\$4,084,573	78%	\$3,600,899	84%
Software Solutions	2,486,158	43%	553,221	10%	566,210	13%
Hardware	209,303	4%	621,777	12%	121,127	3%
Total revenue	\$5,727,564	100%	\$5,259,571	100%	\$4,288,236	100%

Revenue for the three-month period ended December 31, 2008 increased by 9% from the four months ended December 31, 2007 (in spite of the extra month) and 34% from the three months ended August 31, 2007, primarily due to increased revenues from software solutions as a result of the Destinator acquisition. While engineering services continued to account for the majority of the Company's revenue for both periods, software revenue contribution to the total revenue figure rose from 13% for the three months ended August 31, 2007 to 43% for the three months ended December 31, 2008.

Engineering services revenue for the three months ended December 31, 2008 was \$3.0 million, compared to \$4.1 million for the four months ended December 31, 2007 and \$3.6 million for three months ended August 31, 2007, a decrease of 15% from the three months ended August 31, 2007 compared to the three months ended December 31, 2008.

Total revenues attributable to the Company's software solutions increased to 43% of total revenues during the three months ended December 31, 2008 compared to 10% and 13% for the four months ended December 31, 2007 and three months ended August 31, 2007, respectively. The growth in software solutions revenue was primarily due to the addition of the Destinator navigation software, a product which the Company began selling July 9, 2008. Sales of the Destinator product accounted for approximately \$2.4 million of the total revenue for the three months ended December 31, 2008.

Hardware revenue decreased to \$209,303, accounting for 4% of total revenue compared to \$621,776 or 12% of total revenue for the four months ended December 31, 2007 but increased from \$121,127 (accounting for 3% of total

revenue) for the three months ended August 31, 2007. The decrease is a result of the Company ceasing to market its reference design platform in 2008 to new customers. However, the increase during the months ending December 31, 2008 compared to the three months ended August 31, 2007 was a result of increased orders from existing customers

To date, the Company has had a significant portion of its revenue derived from engineering services provided to a few of its largest customers. While the Company continues to focus its efforts on developing revenue from its Soleus and Destinator software platforms and diversifying its customer base, it is expected that in the near-term, revenue generation will continue to be concentrated on a few customers. 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 December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Revenue	\$2,886,293	\$2,733,373	\$2,131,321
Percentage of total revenue	50%	52%	50%

The two customers accounting for 50% of the total revenue for the three months ended December 31, 2008 were not the same two customers that accounted for 52% of the total revenue for the four months ended December 31, 2007 nor the three months ended August 31, 2007.

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

	Three months ended December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
United States	\$1,943,644	\$2,014,985	\$2,017,086
Canada	14,580	88,464	92,868
Europe	3,144,145	2,797,167	2,116,101
Other	625,195	358,955	62,181
	\$5,727,564	\$5,259,571	\$4,288,236

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 December 31, 2008	%	Four months ended December 31, 2008	%	Three months ended August 31, 2007	%
Revenues	\$5,727,564	100%	\$5,259,571	100%	\$4,288,236	100%
Cost of sales	2,639,255	46%	3,343,590	64%	2,183,970	51%
Gross margin	\$3,088,309	54%	\$2,609,839	36%	\$2,104,266	49%

Gross margin percentage for the three months ended December 31, 2008 was 54%, representing a 18% increase over the four months ended December 31, 2007 of 36%. Gross margin percentage also increased from 49% in the three months ended August 31, 2007 to 54% during the three-month period ended December 31, 2008. The increase in gross margin for the three months ended December 31, 2008 when compared to both prior periods is directly attributable to the addition of Destinator's navigation software revenue.

The decline in gross margin percentage for the four months ended December 31, 2007, when compared with the three months ended August 31, 2007 was attributable to the execution of several Soleus product related service projects at lower gross margins during the four months ended December 31, 2007.

Operating Expenses

	Three months ended December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Total operating expenses	\$7,132,471	\$8,446,331	\$6,065,025
As a percentage of total revenue	125%	161%	141%

Total operating expenses for the Company (comprised of sales and marketing, research and development, administration, amortization, stock-based compensation and expenses related to TPC) for the three months ended December 31, 2008 were \$7.1 million, representing a decrease of 16% over the four-month period ended December 31, 2007 and an increase of 18% over the three months ended August 31, 2007.

The decrease in total operating expenses for the three months ended December 31, 2007 of \$1.4 million over the four-month period ended December 31, 2007 was due to one extra month for the period ending December 31, 2007. The increase over the three-month period ended August 31, 2007 of \$1.1 million was due to increased costs in all areas of operations, including the addition of Destinator's operations, as of July 9, 2008. In particular, research and development costs increased by \$800,000, bad debts expense increased by \$300,000, administration costs increased by \$75,000, stock based compensation increased by \$60,000, and amortization costs increased by approximately \$500,000, due to intangible assets amortization of acquired assets, related to the Destinator acquisition of July 9, 2008. This was offset by a decrease in sales and marketing expenses of approximately \$550,000 and decrease in TPC related cost of \$100,000. The majority of the Company's operating costs continue to be incurred in currencies other than the Company's reporting currency which the United States dollar (U.S.), primarily the Canadian dollar.

Due to the recent decline in the global economic environment, the Company implemented operating cost reduction initiatives consisting of reduction in headcount, exit of facilities and decline in other general operating expenses including travel, marketing and professional fees. This has resulted in the decline in total operating expenses in the three months ended December 31, 2008 over the prior three month period ended September 30, 2008.

Marketing and Sales

	Three months ended December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Marketing and sales	\$1,181,411	\$2,379,539	\$1,727,331
As a percentage of total revenue	21%	45%	40%

The Company maintains a direct sales force, with staff in the United States, Canada, the United Kingdom, China, Israel 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 represented 22%, 45% and 40% of total revenue for the three months ended December 31, 2008, four months ended December 31, 2007 and three months ended August 31, 2007, respectively.

Sales and marketing expense for the three months ended December 31, 2008 decreased by approximately \$1.2 million to \$1.2 million, from \$2.4 million for the four months ended December 31, 2007. The decrease in sales and marketing expense was primarily due to the extra month incurred in the period ended December 31, 2007 in addition to a decrease in employee related costs of approximately \$500,000 and consulting services of \$100,000.

Sales and marketing expense for the three months ended December 31, 2008 of \$1.2 million decreased by 32% over the \$1.7 million in the three months ended August 31, 2007. The decrease from the three months ended August 31, 2007 was primarily due to a reduction in headcount from twenty-eight to twenty-three persons over the two time periods.

Research and Development

	Three months ended December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Research and development - Soleus	\$2,012,233	\$3,201,247	\$2,545,768
Other research and development	1,424,803	169,399	96,360
Total research and development	\$3,437,036	\$3,370,646	\$2,642,128
As a percentage of total revenue	60%	64%	62%

The Company has research and development groups located in Bellevue, Washington, Vancouver, BC, Taipei, Taiwan, Beijing, China and Herzliya, Israel. 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 \$3.4 million for the three months ended December 31, 2008 compared to \$3.4 million for the four months ended December 31, 2007 and \$2.6 million for three months ended August 31, 2007. The increase in research and development costs of approximately \$800,000 in the three months ended December 31, 2008 compared to the three months ended August 31, 2007 is attributable largely to the increased salaries and related benefits of the Israel and China based staff, acquired on July 9, 2008.

Administration

	Three months ended December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Administration	\$1,577,367	\$2,178,201	\$1,199,420
As a percentage of total revenue	28%	32%	28%

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

Administration expenses for the three months ended December 31, 2008 were \$1.6 million, compared to \$2.2 million for the four months ended December 31, 2007 and \$1.2 million for the three months ended August 31, 2007.

The decrease of \$600,000 between the three months ended December 31, 2008 and four months ended December 31, 2007 was primarily due to the extra month included in the period ended December 31, 2007. The increase of \$400,000 compared to the three months ended August 31, 2007 was due to approximately \$200,000 of additional costs for the Destinator operations and an increase in bad debts expense of \$300,000, offset by a decrease of \$100,000 in professional fee expenses.

Other Items

	Three months ended December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Foreign exchange loss (gain)	(\$1,097,138)	\$290,782	\$58,035
Interest income	(54,195)	(195,969)	(186,339)
Asset impairment	19,278,706	-	-
Loss on disposal of equipment	-	-	2,457
Restructuring charges	3,011,947	663,807	-
Other items	\$21,139,320	\$758,620	(\$125,847)

Other items for the three months ended December 31, 2008 totaled net other expense of \$21.1 million, compared to net other expense of \$758,620 for the four months ended December 31, 2007 and net other income of \$125,847 for the three months ended August 31, 2007. This was due primarily to restructuring charges of approximately \$3.0 million, the write down of intangible assets of approximately \$6.5 million and the write-off of goodwill of approximately \$12.8 million less foreign exchange gain of approximately \$1.1 million.

During the three months ended December 31, 2008, the Company recorded a non-cash expense of \$19.3 million due to the impairment of goodwill of \$12.8 million primarily attributable to acquisitions executed in 2002 and 2003 respectively and \$6.3 million due to the impairment of acquired intangible assets. The impairment of the intangible assets was due to the reduction in anticipated future cash flows attributable to such intangible assets obtained by the Company in its acquisition of Destinator. Specific factors impacting the impairment of such intangible assets comprising of acquired software, customer base, patent portfolio, trademarks and brand include the recent decline in the Company's share price since the acquisition date and the challenging global economic environment which is impacting the target market for such intangible assets.

In addition, the Company incurred total restructuring charges during this period of \$3.0 million including non-cash write-off of redundant assets of \$800,000. The restructuring charges are comprised of employee separation costs, facility exit costs and other related costs.

Liquidity and Capital Resources

Cash provided by (used in):	Three months ended December 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Operating activities	(\$4,313,766)	(\$7,592,360)	(\$3,081,609)
Investing activities	(19,062)	(164,869)	(196,793)
Financing activities	(58,724)	120,129	1,609,625
Effect of exchange rate changes on cash and cash equivalents	(2,875,712)	1,205,647	257,191
Increase (decrease) in cash and cash equivalents	(\$7,267,264)	(\$6,431,453)	(\$1,411,586)

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at December 31, 2008, the Company had cash totaling approximately \$12.4 million, with working capital² of \$10.7 million, as compared to cash of \$12.2 million and \$18.6 million at December 31, 2007, respectively, and August 31, 2007 and working capital of \$11.7 million and \$17.8 million as at December 31, 2007 and August 31, 2007, respectively.

⁽²⁾ 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 operating activities for all comparable periods was attributable to research and development expenditures incurred for the Company's Soleus and other product offerings in addition to sales and marketing efforts related to the Destinator and Soleus products, and overall corporate administration activities.

Cash used in investing activities for the three months ended December 31, 2008 was \$19,000 due to capital asset purchases.

During the three months ended December 31, 2008, cash used in financing activities was attributable to repayments for capital lease obligations. This compares to the three-month period ended August 31, 2007, when equity financings resulted in positive cash inflow from financing activities.

The Company incurs a significant percentage of its cost of sales and operating expenses in Canadian dollars. As a result, a significant percentage of the Company's treasury investment portfolio is maintained in Canadian dollars to fund such expenses. The Company funds non-Canadian dollar expenses through the proceeds received from sales made to its customers in US dollars. The Company maintains the majority of its treasury investments in lower risk investments including Government of Canada treasury bills and investments held with tier one Canadian chartered banks. The recent volatility experienced in the public capital markets and economy has not directly impacted the Company's treasury investment portfolio or financial results during the three months ended December 31, 2008. The Company will continue to deploy investment strategies it deems appropriate to preserve its cash resources to fund future operations as required under the Company's business plan.

Management is of the opinion that cash and cash equivalents of approximately \$12.4 million at December 31, 2008, together with new business attained through March 12, 2009 and ongoing revenue from its customers, will provide sufficient working capital to meet the Company's projected cash requirements through 2009. However, if there are any unanticipated expenses or lower than anticipated revenues this could require the Company to seek additional financing or engage in further reductions in expenditures which may include further restructuring of the Company. The current economic environment may impact the Company's ability to generate such incremental financing.

The recent material decline in the overall global economy has significantly impacted the software industry in which the Company operates, resulting in increased potential risk of customer payment issues and vendors demanding more aggressive terms, which may adversely impact the working capital and financial position of the Company. The Company may no longer have access to historical funding sources consisting of credit facilities and public offerings due to the current economic environment, resulting in the Company having to fund future operations with its current working capital and future revenue stream cash flow.

Staffing levels

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

	As at December 31, 2008	As at December 31, 2007	As at August 31, 2007
Service engineers	106	108	96
Sales and marketing	23	27	28
Research and development	86	71	67
General and administration	35	33	32
Total	250	239	223

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, China, Israel, and the United States. Minimum lease payments as at December 31, 2008 are as follows for the years ending December 31:

<u>Contractual Obligations</u>	<u>Total</u>	<u>F2009</u>	<u>F2010</u>	<u>F2011</u>
Operating lease obligations	\$2,562,276	\$1,640,545	\$709,530	\$212,201

Government Assistance

Under agreements with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of \$3.8 million in contributions during the term of the agreement. In exchange for these contributions, the Company has agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over \$10,000,000 until August 31, 2011. To date the Company has paid and accrued approximately CAD\$1,117,433 to TPC in royalties.

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

The Company received correspondence from the Industrial Technology Office ("ITO" formerly "TPC") 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 evaluated the correspondence 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 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. 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 CAD \$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

Intrinsyc prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions. Significant estimates include, but are not limited to, the determination of project expenditures for contracts accounted for on the percentage of completion basis, allowance for doubtful accounts, income tax valuation allowances, goodwill impairment tests and the useful lives and valuation of intangible assets. The Company's significant accounting policies are described in Note 2 to the December 31, 2008 consolidated financial statements as at and for the twelve-month period then ended.

Revenue Recognition

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

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

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

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

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

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

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on 3% of the total accounts receivable outstanding. The allowance is based on the Company’s knowledge of the financial condition of its customers, the aging of the receivables, current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the substantive enactment date. Future income tax assets are evaluated and if realization is not considered “more likely than not”, a valuation allowance is provided.

Goodwill

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

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

The first step is to compare the carrying amount of the reporting unit to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. Management has completed the first step of the goodwill impairment test as of December 31, 2008, December 31, 2007 and August 31, 2007

Given the current economic landscape, the second step was required, and was carried out at December 31, 2008. If the carrying amount of a reporting unit exceeded its fair value, in which case the implied fair value of the reporting unit’s goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit’s goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the first paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit’s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations before extraordinary items and discontinued operations. During fiscal 2008, Company had an impairment charge of \$12,757,277 as it wrote off goodwill it had on its financial statements which is primarily attributable to two acquisitions executed in 2002 and 2003 respectively. This impairment of goodwill is due to the decline in future anticipated cash flows attributable to such acquisitions primary attributable to the recent decline in the global economic environment that has adversely impacted the software industry that the Company services.

Intellectual property and other intangible assets

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

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

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

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

During the twelve months ended December 31, 2008, the Company recorded a non-cash expense of \$6,521,429 due to the impairment of acquired intangible assets in July 2008. The impairment of the intangible assets was due to the reduction in anticipated future cash flows attributable to such intangible assets obtained by the Company in its acquisition of Destinator. Specific factors impacting the impairment of such intangible assets comprising of acquired software, customer base, patent portfolio, trademarks and brand include the recent decline in the Company's share price since the acquisition date and the challenging global economic environment which is impacting the target market for such intangible assets.

Change in Reporting Currency to the U.S. Dollar

Effective January 1, 2008, the Company changed its reporting currency to the U.S. dollar from the Canadian dollar. The change in reporting currency was made to enhance comparability of the Company's results with other publicly traded companies in the software 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 U.S. 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 U.S. dollars as if the U.S. dollar had been used as the reporting currency during those periods.

Change in Accounting Policies

The following is an overview of accounting standard changes that the Company adopted during the year ended December 31, 2008:

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 and the Company adopted them on January 1, 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 will replace section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections will place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

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

not have an impact on the Company's consolidated financial statements as at and for the year ended December 31, 2008.

Going Concern

Effective January 1, 2008, the Company was required to adopt the additional requirements of the CICA Handbook Section 1400 – General Standards of Financial Statements. The additional requirements require management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The adoption of this standard did not have an impact on the Company's consolidated financial statements as at and for the year ended December 31, 2008.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. However, during fiscal 2008, Company wrote off all of its goodwill due to impairment.

Accounting standards

In February 2008, Canada's Accounting Standards Board confirmed that Canadian generally accepted accounting principles ("GAAP"), as used by publicly accountable enterprises, will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. These companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter in the fiscal year ending December 31, 2011 with comparative information also prepared under IFRS.

The Company has commenced an assessment of the impact that the transition to IFRS will have on its financial statements and related disclosures. In preparation for this IFRS conversion from GAAP, the Company is preparing a transition plan that will address the accounting policies, information technology and data systems, internal control environment over financial reporting, disclosure controls and related procedures and training of its employees impacted in the IFRS conversion. As part of this plan, the Company will perform a diagnostic analysis between GAAP and IFRS.

The IFRS conversion plan will include actions to enable the Company to report its financial statements in accordance with IFRS after December 31, 2009 as IFRS financial reporting will be required for comparative purposes for its interim fiscal 2010 financial statement commencing 2011 after adoption of IFRS by the Company.

Risks and Uncertainties

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

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

Worsened General Economic Conditions

The recent dramatic decline in the global economic environment results in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. The economic crisis has adversely impacted the software industry which the Company services. If the current global economic crisis continues, the Company may not generate the sales activity required to support its operations resulting in requirement for additional restructurings and erosion of its existing capital resources which may hinder the future viability of the Company.

Additional Financing

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

Research and Development

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

Major Industry Software Vendor Partners May Become Competitors

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

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's revenue will continue to grow. As at December 31, 2008, the Company had an accumulated deficit of approximately \$100.6 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable.

Stock Price Volatility

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

Product Development and Technological Change

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Company will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and

technological innovations by others. There can be no assurance that the Company will be successful in doing this in a timely manner or at all.

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

Sales and Marketing and Strategic Alliances

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

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

Dependence on a Small Number of Customers

The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. During the twelve-month period ended December 31, 2008, approximately 56% of the Company's consolidated revenue was attributable to its largest three customers. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Company. Moreover, the success of the Company will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

Length of Sales Cycle

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

Intellectual Property Protection

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

Competition

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

International Expansion of Business Operations

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

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

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

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

Foreign Exchange Risk

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

Potential Fluctuations in Quarterly Results

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

Dependence on Key Personnel

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

Acquisitions

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

Product Liability

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

Future Share Sales

If the Company's shareholders sell substantial amounts of the Company's common shares, the market price of the Company's common shares could decrease. As of March 12, 2009, the Company has 163,254,903 shares outstanding. Additionally, the Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect the lesser of (i) 10% less 1 share of the issued and outstanding common shares of the Company from time to time; and (ii) 30,000,000 common shares of the Company. As of March 12, 2009, the Company has reserved for issuance 16,200,490 common shares under the Company's stock option plan with a total of 6,295,096 options issued and outstanding. In total, 18,016,570 common shares are reserved for issuance pursuant to outstanding warrants.

Shareholder Rights Plan

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

Non-recurring Costs

From time to time the Corporation may incur significant non-recurring charges as a result of business segment shut-down or corporate restructuring. These charges could have an adverse effect on the business, financial condition, operating results or cash flow of the Corporation.

Management of Growth

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

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company. The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with Canadian generally accepted accounting principles.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal controls over financial reporting. This evaluation identified several instances which internal controls did not operate in an effective manner resulting in a potential misstatement of U.S. \$350,000 which was corrected by the Company prior to finalization of its financial statements. As a result, the Company has further strengthened its internal control processes to mitigate future potential material financial statement misstatements and other internal control violations. No additional changes were made in the Company's internal control over financial reporting during the twelve-month period ended December 31, 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.

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. As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the

Company's financial statements and should also be considered a weakness in its disclosure controls and procedures. Management has concluded that taking into account the present stage of the Company's development and the best interests of its shareholders, the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight, and interim financial statements are reviewed by the Company's auditors.

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 December 31, 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.