



INTRINSYC SOFTWARE INTERNATIONAL, INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and December 31, 2008
(expressed in U.S. dollars)

MANAGEMENT'S RESPONSIBILITY

The management of Intrinsic Software International, Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial reports are properly maintained to provide accurate reliable financial statements.

The Company's audit committee is comprised entirely of independent directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review the consolidated financial statements and the independent auditors report. The audit committee has approved the consolidated financial statements and reported its findings to the Board of Directors.

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



Tracy Rees
Chief Executive Officer
March 15, 2010



George Reznik
Chief Financial Officer
March 15, 2010

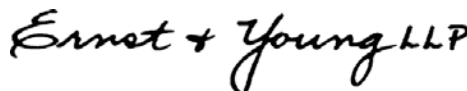
AUDITORS' REPORT

To the Shareholders of
Intrinsic Software International, Inc.

We have audited the consolidated balance sheets of Intrinsic Software International, Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Vancouver, Canada,
March 15, 2010

Chartered Accountants

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Balance Sheets

(Expressed in U.S. dollars)

(See Note 1 – Organization and Basis of Financial Statement Presentation)

As at	December 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$11,710,227	\$12,391,452
Restricted cash (<i>notes 3 and 15(e)</i>)	-	125,653
Accounts receivable (<i>notes 4, 17 and 20</i>)	3,401,467	6,083,190
Inventory	14,269	14,649
Prepaid expenses - current	313,528	523,916
Total current assets	15,439,491	19,138,860
Restricted cash (<i>note 3</i>)	95,147	82,102
Prepaid expenses	47,063	18,998
Equipment (<i>notes 7, 17 and 18</i>)	735,807	1,397,550
Intangible assets (<i>notes 5 and 6</i>)	3,880,481	4,203,914
Total assets	\$20,197,989	\$24,841,424
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (<i>notes 16 and 18</i>)	\$3,574,134	\$7,727,497
Capital lease obligations - current (<i>note 10</i>)	45,179	82,911
Deferred revenue	526,169	754,301
Total current liabilities	4,145,482	8,564,709
Long-term capital lease obligations (<i>note 10</i>)	7,388	39,483
Total liabilities	4,152,870	8,604,192
Shareholders' equity		
Share capital (<i>note 12</i>)	108,288,585	108,288,133
Warrants and underwriters' options (<i>notes 12 and 13</i>)	4,029,953	4,489,508
Contributed surplus (<i>note 13</i>)	5,230,217	4,260,625
Accumulated other comprehensive income (loss) (<i>note 8</i>)	2,068,103	(159,400)
Deficit	(103,571,739)	(100,641,634)
Total shareholders' equity	16,045,119	16,237,232
Total liabilities and shareholders' equity	\$20,197,989	\$24,841,424

Commitments and contingencies (*note 15*)

See accompanying notes to consolidated financial statements

On behalf of the Board:



Director



Director

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Operations and Deficit

(Expressed in U.S. dollars)

For the	Year ended December 31, 2009	Year ended December 31, 2008
Revenues (note 17)	\$17,485,074	\$24,719,235
Cost of sales	7,738,538	11,707,991
	9,746,536	13,011,244
Expenses		
Sales and marketing	3,345,696	7,149,756
Research and development (note 9(b))	4,576,596	12,775,487
Administration	2,117,704	7,659,316
Amortization (notes 6 and 7)	1,252,184	1,858,002
Stock-based compensation (notes 12 and 13)	510,238	1,061,761
Technology Partnerships Canada Funding Investment (note 9(a))	342,055	323,502
Asset impairment (note 6)	-	19,278,706
Restructuring charges (note 18)	-	3,826,615
Loss on disposal of equipment (notes 6 and 7)	204,166	-
	12,348,639	53,933,145
Loss before other expenses (earnings) and income taxes	2,602,103	40,921,901
Other expenses (earnings)		
Foreign exchange (gain) loss	665,847	(1,570,634)
Interest income	(72,350)	(606,605)
Loss before income taxes	3,195,600	38,744,662
Income tax expense (recovery) (note 14)		
Current	(265,495)	163,770
Future	-	(48,550)
	(265,495)	115,220
Net loss for the period	2,930,105	38,859,882
Deficit, beginning of period	100,641,634	61,781,752
Deficit, end of period	\$103,571,739	\$100,641,634
Loss per share (basic and diluted)	\$0.02	\$0.26
Weighted average number of shares outstanding	163,256,969	151,546,475

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Comprehensive Loss

(Expressed in U.S. dollars)

For the	Year ended December 31, 2009	Year ended December 31, 2008
Net loss for the period	(\$2,930,105)	(\$38,859,882)
Other comprehensive gain (loss):		
Unrealized gains (losses) on translating financial statements from functional currency to reporting currency <i>(note 8)</i>	\$ 2,227,503	(\$ 9,382,349)
Comprehensive loss	(\$ 702,602)	(\$48,242,231)

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Cash Flows

(Expressed in U.S. dollars)

For the	Year ended December 31, 2009	Year ended December 31, 2008
OPERATING ACTIVITIES		
Net loss for the period	\$ (2,930,105)	\$ (38,859,882)
Items not involving cash:		
Amortization	1,252,184	1,858,002
Future income taxes	(2,603)	(43,389)
Non-cash restructuring	-	799,804
Stock-based compensation (note 13)	510,238	1,061,761
Asset impairment (note 6)	-	19,278,706
Loss on disposal of equipment (notes 6 and 7)	243,976	-
Changes in non-cash operating working capital:		
Accounts receivable	3,318,137	(3,723,826)
Inventory	794	87,716
Prepaid expenses	231,717	(123,422)
Accounts payable and accrued liabilities	(4,580,038)	5,588,609
Deferred revenue	(346,738)	(209,313)
Cash used in operating activities	(2,302,438)	(14,285,234)
INVESTING ACTIVITIES		
Purchase of equipment	(55,858)	(1,625,908)
Loan receivable	-	(62,321)
Deferred acquisition costs	-	(1,448,982)
Cash paid on acquisition of Destinator [®] , net of cash acquired	-	(7,844,264)
Cash used in investing activities	(55,858)	(10,981,475)
FINANCING ACTIVITIES		
Issuance of common shares and warrants (note 12)	251	32,119,750
Share issuance costs (note 12)	-	(2,186,676)
Settlement of services in shares (note 3)	-	162,219
Repayment of capital lease obligation (note 10)	(78,050)	(44,505)
Restricted cash (notes 3 and 15(e))	139,725	(208,870)
Cash provided by financing activities	61,926	29,841,918
Effect of exchange rate changes on cash and cash equivalents	1,615,145	(4,337,358)
Increase (decrease) in cash and cash equivalents	(681,225)	237,851
Cash and cash equivalents, beginning of period	12,391,452	12,153,601
Cash and cash equivalents, end of period	\$ 11,710,227	\$ 12,391,452
Supplementary information		
Interest paid	\$ -	\$ 13,975
Interest received	61,310	598,031
Income taxes paid	50	281,510
Assets acquired under capital leases	-	66,055
Shares issued in connection with acquisition of Destinator	-	5,522,377

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

1. ORGANIZATION AND BASIS OF FINANCIAL STATEMENT PRESENTATION

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

These consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The eventual profitability of the Company and its ability to continue as a going concern is dependent upon many factors, including the successful development and marketing of its products and services. In addition, the mobile software and services industry is subject to rapid and substantial technological change which could reduce the marketability of the Company's technology and services. In late 2008, the Company implemented a series of restructuring initiatives which resulted in the reduction of its operating expenses and the preservation of working capital in an attempt to support execution of its business plan. The Company's existing cash resources are sufficient, in management's opinion, in conjunction with anticipated revenues to remain in operations for the next twelve months. The Company may make future operating expense adjustments in the event that unforeseen circumstances are encountered or the impact attributable to the current global economic crisis is greater than anticipated. The Company may be required to obtain additional sources of financing in the future to fund future product research and development activities, realize returns on its assets and discharge its liabilities in the normal course of business. There can be no assurance that the Company will successfully execute its business plan or the Company will be able to raise any capital through any type of offering or similar financial arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are presented in U.S. dollars and have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

Changes in accounting policies

Effective January 1, 2009, the Company retroactively without restatement adopted the following new accounting standard issued by the CICA.

HB Section 3064 - Goodwill and Intangible Assets

Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and other Intangible Assets", and Section 3450, "Research and Development Costs". The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. 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 adoption of this standard required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from property and equipment to intangible assets. The net carrying value of computer software reclassified as of December 31, 2009 was \$50,219 (December 31, 2008 - \$169,914). In addition, the amortization of computer software has been reclassified from amortization of property and equipment to amortization of intangible assets. The reclassification of amortization for the year-ended December 31, 2009 was \$75,877 (December 31, 2008 - \$126,214), see details in notes 6 and 7.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

HB Section 3862 – Financial Instruments - Disclosures (Amended)

The amendment to Section 3862, “Financial Instruments - Disclosures,” provides enhanced disclosures about fair value measurements. Management has determined that there is no significant impact in adopting this standard.

HB Section 3855 – Financial Instruments – Recognition and Measurement (Amended)

The amendment to Section 3862, “Financial Instruments – Recognition and Measurement,” provides enhanced additional guidance on the classification of embedded derivatives. Management has determined that there is no significant impact in adopting this standard.

Future Accounting Changes

HB Section 1582 - Business Combinations

This section applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The new CICA Handbook Section 1582 will replace Section 1581 “Business Combinations” establishing standards for the accounting for a business combination that will more closely resemble those under International Financial Reporting Standards. Earlier adoption of this section is permitted. Management has not fully determined the impact of adopting this standard.

HB Section 1601 - Consolidated Financial Statements and Section 1602 - Non-Controlling Interests

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, the new CICA Handbooks Section 1601 and Section 1602 will replace Section 1600 “Consolidated Financial Statements”. These sections establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements. Earlier adoption of this section is permitted as of the beginning of a fiscal year. Management has not fully determined the impact of adopting this standard.

EIC 175 – Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements*, replacing EIC 142, *Revenue Arrangements with Multiple Deliverables*. This abstract was amended to (1) exclude from this application of the updated guidance those arrangements that be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, *Software Revenue Recognition* as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgements made in applying this guidance.

FASB ASU 2009-14 removed from the scope of accounting of software arrangements that is contained in the SOP 97-2 guidance, tangible products containing software components and non-software components that function together to deliver the product’s essential functionality.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. Management has not fully determined the impact of adopting this abstract.

Accounting Standards

In February 2008, Canada's Accounting Standards Board confirmed that Canadian 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.

In 2009, the Company commenced a comprehensive IFRS conversion plan which addressed changes in accounting policies, restatement of comparative periods, organization, internal controls and any required changes to business processes. To facilitate this process and ensure that the full impact of the conversion was understood and managed reasonably, the Company has retained consultants to assist with the IFRS conversion project. Through assistance with respect to training and preparation of reconciliations of historical Canadian GAAP financial statements to IFRS, the Company believes that its accounting department has obtained sufficient understanding of IFRS for implementation purposes.

The Company has completed its preliminary assessment of the differences between IFRS and Canadian GAAP that may potentially impact the recognition, measurement and presentation of the Company's financial statement balances at the transitional date of January 1, 2010. The Company has commenced Phase II of the project to (i) update its findings under Phase I, (ii) quantify the differences identified in Phase I, (iii) record necessary entries to its transitional balance sheet at January 1, 2010 and (iv) prepare the reconciliation tables mandated by IFRS commencing with the Company's first interim IFRS financial statements (March 31, 2011 with March 31, 2010 comparatives) from Canadian GAAP reported net income and equity to that reported under IFRS.

Intrinsyc is required to apply all of those IFRS standards which are effective for periods ending Dec 31, 2011 and apply them to its opening January 1, 2010 balance sheet (Transition date).

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Intrinsyc Software International, Inc. (the "Company") and its wholly-owned subsidiaries, Intrinsyc Software (USA), Inc., Linar Limited, Intrinsyc Europe Limited, Intrinsyc Software (Barbados) Inc., Intrinsyc Software (Israel) Ltd. and Intrinsyc Software (Beijing), Inc. The Company has eliminated all significant inter-company balances and transactions. These consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with Canadian GAAP.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the consolidated financial statements.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Instruments

The Company has classified cash and cash equivalents and restricted cash as held-for-trading financial assets, measured at fair value. Accounts receivable is classified as loans and receivables, measured at amortized cost. Accounts payable and accrued liabilities and capital lease obligations are classified as other liabilities, measured at amortized cost.

Cash equivalents

Cash equivalents include short-term deposits, which are all deposits rated R1, term deposits, savings investment deposits, guaranteed investment certificate deposits or banker's acceptances, with a term to maturity of three months or less when acquired and are carried at fair value.

Inventory

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

Allowance for doubtful accounts

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

Research and development

Research costs are expensed in the year incurred. Development costs are expensed in the year.

Equipment

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

Computers and equipment	30% declining-balance
Furniture and fixtures	20% declining-balance
Office equipment	30% declining-balance

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

Leases

Leases are classified as either capital or operating. Those leases, which transfer substantially all the benefits and risks of ownership of the property to the Company are accounted for as capital leases. Capital lease obligations reflect the

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

present value of future lease payments, discounted at the appropriate interest rate. All other leases are accounted for as operating leases wherein rental payments are charged to expense as incurred.

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 are tested for impairment by comparing their carry values to the sum of the undiscounted cash flows expected to result from their use or eventual disposition. If not recoverable, the impairment charge is the difference between the carrying value and fair value.

Intangible assets are recorded at cost. Amortization is subsequently provided on a straight line basis over the following periods:

Acquired software technology	6 years
Computer software	3 years
Customer relationships	6 years
Patent portfolio	6 years
Trademark and brand	4 years

Revenue recognition

Revenues from Solutions Engineering Services 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 method 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.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company recognizes revenue from the sale of software licenses (Software Solutions) 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. Any unrecognized revenue is recorded in deferred revenue. 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.

The Company has entered into contracts with some of its customers to bundle and resell Intrinsyc's products with their own products for a per unit royalty fee. Royalty revenue is recognized as the Company's products are resold.

Unbilled revenue

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

Share issue costs

The Company reduces the value of consideration assigned to shares issued by the costs of issuing the shares.

Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in note 12. The Company accounts for all stock-based payments granted to employees and non-employees using the fair value based method in accordance with the CICA Accounting Standards Boards to the CICA Handbook Section 3870, "*Stock-Based*

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensation and Other Stock-Based Payments” The expense is charged to operations as stock-based compensation with a corresponding credit to contributed surplus. In the event of an option forfeiture, any expense recognized to date on unvested options is reversed in the period in which the forfeiture occurs. Consideration paid by employees on the exercise of stock options is recorded as share capital and contributed surplus. The related amount accumulated in contributed surplus is reclassified to share capital.

Impairment of equipment

The Company monitors the recoverability of equipment, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result from the use of the related assets. The Company’s policy is to record an impairment loss in the period when the Company determines that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to fair value. As at December 31, 2009, the Company has not recorded any such impairment losses. As at December 31, 2008, the Company had not recorded any such impairment losses except as outlined in note 18 - Restructuring.

Translation of foreign currencies

Foreign operations that are considered integrated (financially and operationally dependent on the parent) are translated to Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange are used for non-monetary assets and liabilities and average rates for the period for revenues and expenses except for amortization, which is translated at exchange rates used in the translation of the related asset accounts. Gains or losses resulting from these translation adjustments are included in income. This method of translation is referred to as the “temporal method.”

Foreign operations that are considered self-sustaining (financially and operationally independent of the parent) are translated to Canadian dollars using the current rates of exchange for assets and liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of shareholders’ equity (“accumulated other comprehensive loss”) until there is a realized reduction in the parent’s net investment in the foreign operation. This method of translation is referred to as the “current rate method.”

All subsidiaries of Intrinsyc Software International, Inc. meet the criteria as fully integrated. Therefore, the temporal method of translation is used for all the Company’s current subsidiaries.

Loss per share

The loss per share is calculated by using the weighted average number of common shares outstanding during the period. If in a reporting period the Company has outstanding dilutive equity instruments, the diluted loss per share is calculated using the treasury stock method. Diluted per share amounts have not been disclosed as the effect of outstanding options and warrants is anti-dilutive for all periods presented.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in income. Future tax assets and liabilities are measured

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

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

3. RESTRICTED CASH

During 2008, as part of a settlement the Company had with one of its vendors, the Company agreed to pay \$570,885 (CDN \$600,000) cash as well as paying \$190,295 (CDN \$200,000) of the account by issuing the vendor 1,250,000 common shares at a price of \$0.15 (CDN \$0.16) for a total payment of \$761,180 (CDN \$800,000). The shares were issued on November 27, 2008. The shares were subject to a 4-month hold period from date of issue and will require orderly liquidation of the shares on a basis restricted to 25% of the total volume during any 6-month period unless previously approved by the Company. Intrinsic guaranteed that a minimum of \$95,147 (CDN \$100,000) is received from the sale of shares. As such, the Company placed \$95,147 (CDN \$100,000) in trust which will be released to the Company upon liquidation of such shares. In the event that the total proceeds from disposition are lower than \$95,147 (CDN \$100,000), such dispositions will be offset by payment from such funds held in trust. To date, no shares have been liquidated. The Company had also collateralized its former lease agreement for its facilities in Israel by restricting cash of approximately \$126,000 in one of its Israeli bank accounts rather than deposit (see Note 15(e) – Commitments and Contingencies).

4. ACCOUNTS RECEIVABLE

	December 31, 2009	December 31, 2008
Trade and miscellaneous receivables	\$ 3,590,387	\$ 5,998,881
Less: Allowance for doubtful accounts	(655,766)	(440,562)
Unbilled revenue	466,846	524,871
	\$ 3,401,467	\$ 6,083,190

5. ACQUISITION OF DESTINATOR

On July 9, 2008, the Company completed the acquisition of the operations of Destinator Technologies with an aggregate purchase price of \$14.4 million inclusive of estimated acquisition costs of \$2.1 million. The total consideration paid, excluding transaction costs, consisted of \$6.8 million in cash consideration and 11 million common shares of Intrinsic valued at \$0.502 per share, for a total value of \$5.5 million.

Cash	\$ 6,788,341
Common shares of the Company (11 million issued by the Company)	5,522,377
Estimated acquisition costs	2,055,539
	\$14,366,257

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

5. ACQUISITION OF SELECTED ASSETS OF DESTINATOR (cont'd)

The total purchase price consideration has been allocated the fair values of the assets acquired and liabilities assumed based on management's best estimates and taking into account all available information as at the time of the acquisition as follows:

Net Assets Acquired

Cash	\$	282,676
Accounts receivable		113,496
Prepaid expenses and other current assets		326,820
Other long-term assets		27,811
Property and equipment		921,940
Acquired intangible assets		13,698,000
Goodwill		1,249,489
Accounts payable and accrued liabilities		(654,396)
Taxes payable		(978,367)
Other current liabilities		(562,886)
Other long-term liabilities		(58,326)
		\$ 14,366,257

The fair value of the 11.0 million common shares issued was determined on the Company's common share price of \$0.502 per share, representing the average closing price of the Company's shares for a reasonable period before, and after the date of announcement of the acquisition commencement date on July 2, 2008.

The following table presents details of the purchased identifiable intangible assets:

	Estimated Useful Life (in years)	Acquired Amount
Acquired software technology	6	\$ 11,110,000
Customer relationships	6	1,560,000
Patent portfolio	6	870,000
Trademarks and brand	4	158,000
Balance at July 9, 2008		\$ 13,698,000

The estimated future amortization expense as of December 31, 2009 of the purchased identifiable intangible assets is as follows:

Amortization of Acquired Intangible Assets

2010	\$	844,726
2011		844,726
2012		836,101
2013		824,027
2014		480,682
		\$ 3,830,262

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

6. GOODWILL AND OTHER INTANGIBLE ASSETS

- [a] As at December 31, 2008, the Company performed the goodwill impairment test. As a result, the Company wrote off goodwill \$12,757,277 pertaining to goodwill acquired in the Destinator, Linar and IEL acquisitions. As of December 31, 2008, the goodwill balance was \$nil.
- [b] During 2008, the Company recognized amortization of \$1,137,456 of which \$135,370 related to intangible assets acquired as part of the acquisition of IEL. The Company reviewed the technology and related intangible assets acquired from Destinator and their future cash flow projections and recorded an impairment charge of \$6,521,429 during the year ended December 31, 2008. The impairment charge is equal to the amount by which the asset's carrying amount exceeded the net present value of the assets' estimated discounted future cash flows. The Company reviewed the technology and related intangible assets acquired from Destinator and their future cash flow projections and identified no further impairment as at December 31, 2009.

The following table presents details of movement in the carrying value of the intangible assets as at December 31, 2009:

	Amount
Balance, July 9, 2008	\$ 13,698,000
Reclassification of computer software from equipment	296,128
Amortization	(1,263,670)
Impairment charge	(6,521,429)
Foreign exchange due to weakening of Canadian dollar	(2,005,115)
Balance, December 31, 2008	\$ 4,203,914
Disposal of computer software	(57,616)
Amortization	(859,547)
Foreign exchange due to strengthening of Canadian dollar	593,730
Balance, December 31, 2009	\$ 3,880,481

Total amortization of intangible assets for the year ended December 31, 2009 and 2008 was \$859,547 and \$1,128,300, respectively. The amount of amortization reclassified from equipment to intangible assets under HB Section 3064 was \$75,877 for year ended December 31, 2009 (December 31, 2008 - \$126,214). During the year ended December 31, 2009, the Company disposed of assets and recorded a loss of \$57,616.

The following table presents a breakdown of intangibles by type:

December 31, 2009	Cost	Accumulated depreciation	Net book value
Acquired software technology	\$ 4,123,616	\$ 1,039,462	\$ 3,084,154
Computer software	1,027,611	977,392	50,219
Customer relationships	579,014	101,109	477,905
Patent portfolio	322,911	87,744	235,167
Trademarks and brand	58,644	25,608	33,036
	\$ 6,111,796	\$ 2,231,315	\$ 3,880,481

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

6. GOODWILL AND OTHER INTANGIBLE ASSETS (cont'd)

December 31, 2008	Cost	Accumulated depreciation	Net book value
Acquired software technology	\$ 3,558,227	\$ 271,867	\$ 3,286,360
Computer software	1,252,429	1,082,515	169,914
Customer relationships	499,625	58,589	441,036
Patent portfolio	278,637	18,400	260,237
Trademarks and brand	50,603	4,236	46,367
	\$ 5,639,521	\$ 1,435,607	\$ 4,203,914

7. EQUIPMENT

December 31, 2009	Cost	Accumulated depreciation	Net book value
Computers and equipment	\$ 2,022,883	\$ 1,591,014	\$ 431,869
Furniture and fixtures	1,037,866	792,008	245,858
Leasehold improvements	512,538	454,458	58,080
	\$ 3,573,287	\$ 2,837,480	\$ 735,807

December 31, 2008	Cost	Accumulated depreciation	Net book value
Computers and equipment	\$ 2,618,647	\$ 1,900,126	\$ 718,521
Furniture and fixtures	1,211,043	773,649	437,394
Leasehold improvements	649,593	407,958	241,635
	\$ 4,479,283	\$ 3,081,733	\$ 1,397,550

Total amortization for the year ended December 31, 2009 and 2008 was \$392,637 and \$594,332, respectively. During the year ended December 31, 2009, the Company disposed of assets for cash proceeds of \$39,809 resulting in a loss of \$146,550.

During the year ended December 31, 2008, the Company disposed of assets and recorded a loss of \$430,615 in connection with the downsizing of its overall operations (see note 18 – Restructuring).

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

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8. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

	December 31, 2009	December 31, 2008
Balance – beginning of period	(\$ 159,400)	\$ 9,222,949
Unrealized foreign currency translation gains (losses)	2,227,503	(9,382,349)
Balance – end of period	\$ 2,068,103	(\$ 159,400)

9. GOVERNMENT ASSISTANCE

a) Industry Technology Office (“ITO”, formally Technology Partnerships Canada or “TPC”)

Under agreements with the ITO, 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 \$3.6 million (CDN \$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 CDN \$10.0 million until August 31, 2011. To date, the Company has either paid or accrued approximately \$1,458,160 (CDN \$1,532,526) to ITO in royalties.

During the year ended August 31, 2005, the Company determined that it had received an overpayment from ITO of CDN \$22,063 and accordingly recorded a liability for this amount. The Company is currently a party to communications/negotiations with ITO with respect to issues raised by ITO regarding funds received by the Company in prior years (See Note 15(c) – Commitments and Contingencies).

b) Industrial Research Assistance Program (“IRAP”)

Effective June 15, 2009, the Company entered into an agreement with the National Research Council Canada (“NRC”) under its Industrial Research Assistance Program (“IRAP”). Under this agreement, the NRC will reimburse the Company 75% of eligible supported salary costs up to a maximum of CDN \$132,000 to assist in the further development of its telephony software application until March 31, 2010. Any funding received will be recorded as a reduction of the related expense presented under “Research and development.” As of December 31, 2009, the Company has recorded a reduction of \$86,521 (CDN \$93,244) against “Research and development” and received \$61,361 (CDN \$66,129) for funding up to October 31, 2009. Expense reductions totalling \$25,799 (CDN \$27,115) for November and December have been accrued.

10. CAPITAL LEASE OBLIGATIONS

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

	December 31, 2009	December 31, 2008
Minimum lease payments	\$ 54,575	\$ 127,786
Interest at 3.8% per annum	(2,008)	(5,392)
Lease principal obligation	52,567	122,394
Current portion	(45,179)	(82,911)
Long-term portion	\$ 7,388	\$ 39,483

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

10. CAPITAL LEASE OBLIGATIONS (cont'd)

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

2010	\$ 47,108
2011	7,467
	<u>\$ 54,575</u>

11. EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS

	December 31, 2009	December 31, 2008
Benefit costs	\$ -	\$ 322,445

The Company matched employees' retirement savings contributions to registered pension plans as part of the employee benefits plan. The funds were transferred to the individual employees' retirement savings plans on a periodic basis. The expense was accrued throughout the year. This employer benefit was terminated effective February 2009.

12. SHARE CAPITAL

Authorized

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

12. SHARE CAPITAL (cont'd)

	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 of issue date fair value for options exercised	-	122,648
Non-cash transfer from warrants and underwriters' options of issue date fair value for warrants exercised	-	184,512
Non-cash transfer from warrants and underwriters' options of issue date fair value for compensation options exercised	-	52,576
Shares issued for cash in connection with public offering	28,600,000	28,047,304
Shares issued in connection with acquisition of Destinator (note 5)	11,000,000	5,522,377
Shares issued in lieu of cash payment (note 3)	1,250,000	162,219
Outstanding, December 31, 2008	163,254,903	\$ 108,288,133
Shares issued in connection with compensation options exercised	4,167	251
Non-cash transfer from contributed surplus of issue date fair value for options exercised	-	201
Outstanding, December 31, 2009	163,259,070	\$ 108,288,585

Issued

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 \$28,047,528 (CAD \$27,856,582) 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.

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. As of December 31, 2009 the number of options reserved under the plan was 16,325,906.

A summary of the Company's share option activity for the years ended December 31, 2009 and 2008 is as follows:

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

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12. SHARE CAPITAL (cont'd.)

	Outstanding options	
	Number of common shares	Weighted average exercise price (in Canadian dollars)
Outstanding, December 31, 2007	9,677,500	\$ 0.81
Options granted	3,475,600	1.05
Options exercised	(296,704)	0.55
Options forfeited/expired	(6,117,263)	1.07
Outstanding, December 31, 2008	6,739,133	\$ 0.70
Options granted	6,312,500	0.08
Options exercised	(4,167)	0.07
Options forfeited/expired	(4,608,820)	0.52
Outstanding, December 31, 2009	8,438,646	\$ 0.34

Stock-based compensation is recorded evenly over the vesting term, which is usually thirty six (36) months. In the event of an option forfeiture, any expense recognized to date on unvested options is reversed in the period in which the forfeiture occurs.

The following table summarizes the share options outstanding as at December 31, 2009:

Options outstanding			Options exercisable		
Range of exercise price (in Canadian dollars)	# of common shares	Weighted average remaining contractual life	Weighted average exercise price (in Canadian dollars)	# of options exercisable	Weighted average exercise price (in Canadian dollars)
\$ 0.06 – \$ 0.74	6,496,155	4.09	\$ 0.17	3,090,321	\$ 0.22
\$ 0.75 – \$ 0.90	1,001,500	2.08	\$ 0.79	838,858	\$ 0.79
\$ 0.91 – \$ 1.26	940,991	2.34	\$ 1.05	770,358	\$ 1.07
	8,438,646	3.65	\$ 0.34	4,699,537	\$ 0.46

The weighted average fair value of stock options granted during the year ended December 31, 2009 was CAD \$0.07 per share [year ended December 31, 2008 – CAD \$0.27]. 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:

	Year ended December 31, 2009	Year ended December 31, 2008
Expected life (in years)	4.0	4.0
Risk-free interest rate	2.08%	2.85%
Volatility	127.50%	87.38%
Dividend yield	0.00%	0.00%

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

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12. SHARE CAPITAL (cont'd.)

Warrants and underwriters' options

A summary of the Company's share purchase warrants and underwriters' options for the years ended December 31, 2009 and December 31, 2008 is as follows:

Outstanding warrants and underwriters' compensation options			
	Number of warrants and underwriters' compensation 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, December 31, 2008	18,016,570	\$ 0.95	\$ 4,489,508
Compensation options and warrants expired	(1,819,295)	0.60	(459,555)
Outstanding, December 31, 2009	16,197,275	\$ 0.99	\$ 4,029,953

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 30, 2010
Compensation warrants issued in connection with March 30, 2006 financing	514,106	\$ 1.05	March 30, 2010
Outstanding, December 31, 2009	16,197,275		

During the year ended December 31, 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 of 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.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

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13. CONTRIBUTED SURPLUS

	December 31, 2009	December 31, 2008
Balance – beginning of period	\$ 4,260,625	\$ 3,152,142
Transfer to common share capital of issue date fair value for options exercised (<i>note 12</i>)	(201)	(122,648)
Transfer from warrants and underwriters' compensation options for expired compensation options (<i>note 12</i>)	459,555	169,370
Stock-based compensation expense	510,238	1,061,761
Balance – end of period	\$ 5,230,217	\$ 4,260,625

14. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 30% [December 31, 2008 - 31%] to loss before income taxes due to the following:

	December 31, 2009	December 31, 2008
Combined Canadian federal and provincial income taxes at expected rate	(\$ 900,859)	(\$12,010,845)
Change in valuation allowance	570,179	316,100
Foreign exchange adjustment	-	2,409,829
Permanent and other differences	(1,633,190)	1,369,949
Write down of intangible assets	-	4,625,673
Foreign income taxed at other rates	438,344	2,253,387
Costs of issuing capital	-	(471,761)
Non-capital losses expired	876,081	898,221
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	383,950	817,514
Other	-	(92,847)
	(\$ 265,495)	\$ 115,220

The composition of the Company's future tax assets and liabilities as at December 31, 2009 and December 31, 2008 is as follows:

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Notes to Consolidated Financial Statements

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14. INCOME TAXES (cont'd)

	December 31, 2009	December 31, 2008
Future income tax assets:		
Equipment and intangible assets	\$ 427,550	\$ 3,008,752
Loss carry forwards	10,914,416	6,354,119
Share issue costs	508,209	631,741
SR&ED pool	1,079,695	968,903
Other	534,021	914,248
Non-capital losses expired	13,463,891	11,877,763
Valuation allowance	(13,463,891)	(11,877,763)
Net future income tax liability	\$ -	\$ -

The future income tax assets have not been recognized in these consolidated financial statements, as management does not consider it more likely than not those assets will be realized in the carry forward period.

As at December 31, 2009, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately \$35,050,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

2010	\$ 5,477,000
2013	1,060,000
2025	3,809,000
2026	4,663,000
2027	5,729,000
2028	10,500,000
2029	3,812,000
	\$ 35,050,000

The Company also has approximately \$4,320,000 of scientific research and experimental development expenditures that may be carried forward indefinitely to be deducted against future Canadian taxable income, and federal investment tax credits of approximately \$1,709,000 available to offset future Canadian federal income taxes payable as well as provincial investment tax credits of \$948,000. The investment tax credits expire commencing in 2009 until 2015. The benefit of the investment tax credits has not been recognized as the realization is not reasonably assured.

At December 31, 2009, the Company also has loss carry forwards in other jurisdictions as a result of its foreign operations. For UK income tax purposes, there are non-capital loss carry forwards totalling approximately \$2,800,000 that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years. As well, it has non-capital loss carry forwards in Israel of approximately \$94,000 that may be carried forward indefinitely and non-capital losses in China of approximately \$7,559,000 that expire beginning in 2010. Finally, the non-capital loss forwards in Barbados are estimated to be \$14,962,000 which expire commencing in 2014 until 2017.

15. COMMITMENTS AND CONTINGENCIES

[a] The Company has lease commitments for office premises until 2015. The aggregate of minimum lease payments as at December 31, 2009 in each of the next six years are approximately as follows:

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15. COMMITMENTS AND CONTINGENCIES (cont'd)

2010	\$ 642,785
2011	327,055
2012	319,596
2013	319,596
2014	319,596
2015	292,964
	\$ 2,221,592

[b] The Company has a commitment to pay a royalty of \$15 per \$100 of licenses sold of certain software licenses. In the event the cumulative royalty is less than \$150,000, the Company was required to pay the difference between the cumulative amount paid and the \$150,000 on November 30, 2008. The Company had accrued the remaining balance as at December 31, 2007 as management determined that future sales under this agreement were unlikely. No payment had been made as of December 31, 2009.

[c] The Company has 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 CDN \$929,183 in addition to the already recorded CDN \$22,063 (see Note 9(a) – Technology Partnerships Canada).

The Company evaluated the correspondence and the original contribution agreement, and has engaged in ongoing negotiations 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. Any amount the Company pays the ITO in excess of the accrued CDN \$22,063 will result in an additional loss that would be recorded in the period of the determination that the amount is owed.

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

[e] The Company had collateralized its former lease agreement for its facilities in Israel by restricting cash of approximately \$126,000 in one of its Israeli bank accounts rather than deposit. In July 2009, this amount was paid to the landlord as part of the settlement of its facility obligations in Israel.

[f] As part of the restructuring initiatives undertaken in fiscal 2008, the Company provided a guarantee regarding an exited facility lease on behalf of a third party tenant. In the event that such tenant forfeits on any lease payment obligations until the expiration of the lease term on November 30, 2010, the Company would be responsible for any current and future lease payments, up to a maximum amount of approximately \$123,637 (CDN \$129,943) (which equals remaining lease payments and has not been accrued) as at December 31, 2009. The new tenant has entered into a lease agreement and has been making payments for this lease facility.

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15. COMMITMENTS AND CONTINGENCIES (cont'd)

[g] The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

16. EXPORT DEVELOPMENT CANADA ("EDC")

On July 31, 2009, the Company entered into an agreement with Export Development Canada ("EDC") whereby EDC will provide insurance for the Company's invoiced sales for a premium of anywhere from CDN \$0.32 to CDN \$0.78 per CDN \$100 of monthly invoiced sales (certain customers are excluded from this coverage). The policy period is from July 1, 2009 to June 30, 2010 with an automatic renewal unless the policy is terminated by the Company. The maximum liability coverage at any one time is CDN \$60,000 for domestic sales and CDN \$1,600,000 for sales outside of Canada. During 2009, the Company recorded total premiums of CDN \$23,584 in sales and marketing. As of December 31, 2009, a total of \$5,006 (CDN \$5,261) in premiums were outstanding and recorded under "Accounts payable and accrued liabilities."

17. SEGMENTED INFORMATION

Operating segments

The Company operates in two segments::

1. Software Solutions segment including the revenue and operations of the Company's own software products consisting of Soleus[®], Destinator and EIS product lines;
2. Device Development Solutions (formerly Solutions Engineering Services) segment including the Company's engineering workforce, which generates revenue by contracting its engineering expertise to third parties;
3. Other which includes revenue generated by the Company's legacy hardware business and the Company's unallocated expenses.

A breakdown of revenues, cost of sales and operating expenses for each reportable segment for the years ended December 31, 2009 and December 31, 2008 is as follows:

Year ended December 31, 2009	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 7,750,175	\$ 8,623,405	\$ 1,111,494	\$ 17,485,074
Cost of sales	740,844	6,396,090	601,604	7,738,538
Gross margin	7,009,331	2,227,315	509,890	9,746,536
Operating expenses	4,576,596	-	7,772,043	12,348,639
Operating profit (loss)	\$ 2,432,735	\$ 2,227,315	(\$ 7,262,153)	(\$ 2,602,103)

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17. SEGMENTED INFORMATION (cont'd.)

Year ended December 31, 2008	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 7,611,145	\$ 15,748,100	\$ 1,359,990	\$ 24,719,235
Cost of sales	2,251,459	8,665,200	791,332	11,707,991
Gross margin	5,359,686	7,082,900	568,658	13,011,244
Operating expenses	32,054,193	-	21,878,952	53,933,145
Operating profit (loss)	(\$ 26,694,507)	\$ 7,082,900	(\$ 21,310,294)	(\$ 40,921,901)

While the Company does report gross margin by the above segments, it does not allocate operating expenses with the exception of R&D expenses and asset impairment, which are attributable to its software business.

Geographic information

The Company's equipment is located as follows:

	December 31, 2009	December 31, 2008
United States	\$ -	\$ 36,568
Canada	547,046	689,720
Asia	188,761	671,262
Total	\$ 735,807	\$ 1,397,550

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

	Year ended December 31, 2009	Year ended December 31, 2008
United States	\$ 11,054,200	\$ 8,855,756
Canada	251,694	375,764
Europe	3,291,035	12,035,512
Asia	1,492,848	2,348,637
Other	1,395,297	1,103,566
	\$ 17,485,074	\$ 24,719,235

Significant customers

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

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17. SEGMENTED INFORMATION (cont'd.)

	Year ended December 31, 2009	% of Accounts Receivable at December 31, 2009	Year ended December 31, 2008	% of Accounts Receivable at December 31, 2008
Customer 1	23%	15%	40%	40%
Customer 2	8%	-%	9%	9%
Customer 3	7%	-%	7%	7%
Total	38%	15%	56%	56%

For the year ended December 31, 2009, revenues earned from Customers 1 and 2 related to Device Development Solutions while revenues earned from Customer 3 related to Software Solutions. For the year ended December 31, 2008, revenues earned from Customers 1 and 2 related to Device Development Solutions while revenues earned from Customer 3 related to Software Solutions.

18. RESTRUCTURING

On September 22, 2008, the Company announced restructuring initiatives to reduce operating costs. As part of these initiatives, the Company began the execution of a significant workforce reduction.

The following table summarizes the expenses recorded by the Company as at December 31, 2009:

	Employee Related Costs	Office Related Costs	Total
Charges	\$ 739,668	\$ 75,000	\$ 814,668
Settlements	678,092	75,000	753,092
Balance at December 31, 2008	\$ 61,576	\$ -	\$ 61,576
Settlements	61,576	-	61,576
Balance at December 31, 2009	\$ -	\$ -	\$ -

On December 1, 2008, the Company announced restructuring initiatives to reduce operating costs for the coming fiscal year. As part of these initiatives, the Company began the execution of a further twenty five percent workforce reduction.

The following table summarizes the expenses recorded by the Company as at December 31, 2009:

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18. RESTRUCTURING (cont'd)

	Employee Related Costs	Loss on Disposal of Equipment	Office Related Costs	Other Costs	Total
Charges	\$ 1,318,428	\$ 430,615	\$ 905,676	\$ 357,228	\$ 3,011,947
Settlements/adjustment	935,573	417,425	(41,763)	357,228	1,668,463
Balance at December 31, 2008	\$ 382,855	\$ 13,190	\$ 947,439	\$ -	\$ 1,343,484
Settlements	382,855	13,190	900,181	-	1,296,226
Balance at December 31, 2009	\$ -	\$ -	\$ 47,258	\$ -	\$ 47,258

Loss on disposal of equipment relates to the write-off of redundant equipment due to restructuring of the Company. The balance as at December 31, 2009 relates to future lease commitments of office space which are redundant due to the Company's restructuring initiatives in 2008. This balance is included as a future financial commitment (see Note 15(a) – Commitments and Contingencies). There was no further restructuring charges during the year ended December 31, 2009.

19. 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 fund capital projects for facilitation of business expansion providing there is sufficient liquidity of capital to enable the internal financing.
- To maintain a 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.

As at December 31, 2009, the shareholders' equity of the Company was \$16,045,119 [December 31, 2008 - \$16,237,232].

20. FINANCIAL INSTRUMENTS

[a] Financial assets and liabilities

The carrying values and fair values of financial assets and liabilities as at December 31, 2009 and December 31, 2008 are summarized as follows:

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(Expressed in U.S. dollars)

20. FINANCIAL INSTRUMENTS (cont'd)

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading	\$ 11,710,227	\$ 11,710,227	\$ 12,391,452	\$ 12,391,452
Loans and receivables	\$ 3,401,467	\$ 3,401,867	\$ 6,083,190	\$ 6,083,190
Other liabilities	\$ 3,626,701	\$ 3,626,701	\$ 7,849,891	\$ 7,849,891

[b] 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 due to the short-term maturity of these instruments. The carrying value of capital lease obligations approximate their fair value given that the interest rates inherent in the leases reflect rates currently available for leases with similar terms and maturities.

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures, was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- 1) Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- 2) Level 2 – Inputs other than quoted prices that are observable for the asset or liability directly or indirectly and
- 3) Level 3 – Inputs that are not based on observable market data.

At December 31, 2009, the Company's financial instruments which are measured at fair value on a recurring basis were cash and cash equivalents. These financial instruments were classified as "Level 1" financial instruments.

[c] Risk Management

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

[i] 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, from time to time, 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 December 31, 2009 and December 31, 2008, the Company's exposure to credit risk for these financial instruments was as follows:

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Notes to Consolidated Financial Statements

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20. FINANCIAL INSTRUMENTS (cont'd)

	December 31, 2009	December 31, 2008
Cash and cash equivalents	\$ 11,710,227	\$ 12,391,452
Accounts receivable	3,401,467	6,083,190
	\$ 15,111,694	\$ 18,474,642

Accounts receivable was aged as follows as at December 31, 2009 and 2008:

	December 31, 2009	December 31, 2008
Current	\$ 3,211,666	\$ 4,955,777
31-60 days	162,947	870,362
Over 60 days	26,854	257,051
	\$ 3,401,467	\$ 6,083,190

[ii] 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.

[iii] Foreign Currency Risk

Although substantially all of the Company's revenues are received in U.S. 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 and China. 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 U.S. dollars. A 10% change in the U.S. to Canadian dollar exchange rate on the December 31, 2009 balances would have an approximate \$703,000 impact on net income. A 10% change in the Chinese Renminbi to Canadian dollar exchange rate on the December 31, 2009 balances would have an insignificant 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 U.S. dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at December 31, 2009, 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 U.S. dollar would also impact the reporting currency balance sheet values with an offsetting adjustment of approximately \$1.6 million to other comprehensive income.

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(Expressed in U.S. dollars)

20. FINANCIAL INSTRUMENTS (cont'd)

[iv] 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 December 31, 2009 to determine how a change in interest rates would impact equity and net earnings. During the year ended December 31, 2009, the Company earned \$72,350 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 year would have increased or decreased net earnings by approximately \$121,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

21. SUBSEQUENT EVENT

On February 8, 2010 the Company announced a restructuring plan to reduce its cost structure, and changes in its management, designed to improve operational efficiency and effectiveness. As a result of these initiatives, the Company expects to incur a restructuring charge of approximately \$500,000 during the three months ended March 31, 2010 attributable to employee severance and other costs. The staff reductions included the departure of two executives.

22. 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.