

INTRINSYC SOFTWARE INTERNATIONAL, INC.

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

For the Three Months and Year ended December 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been prepared by management as of March 25, 2010 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, 2009, which were prepared in accordance with Canadian generally accepted accounting principles. Comparative figures as at and the year ended December 31, 2009 are also provided. All amounts are presented in United States (U.S.) 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, except as required by law.

OVERVIEW

Intrinsyc provides solutions for mobile device development and navigation/location based services ("LBS") applications that enable and enhance next-generation handheld products, including smart phones, and other mobile and embedded devices. The Company's products include Destinator navigation and LBS application, ToBe™ Gateway Server for delivering content services based on location, and other software and enabling technology for mobile device development. Combined with award winning Device Development Solutions, 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 Microsoft Windows Embedded Excellence Awards in 2008 and 2009, 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 800, 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1. The Company is listed on the Toronto Stock Exchange ("TSX") under the trading symbol ICS.

CORPORATE SUMMARY

The Company provides proprietary software, hardware, and services for the growing market of mobile handheld products, which includes consumer mobile handsets, personal navigation devices, smart phones, ereaders, and other mobile and embedded devices. Device development software is sold on a licensed basis and software engineering

services is sold through time and materials and fixed-fee payment models, with an occasional royalty component. Hardware platforms are sold on a per unit basis. The Company offers navigation and LBS solutions to Original Equipment Manufacturers (OEMs) and mobile application stores on a one-time fee, perpetual license basis, or through a monthly subscription. Some customers purchase licenses prior to the sale of their devices and some customers provide monthly or quarterly reports.

Intrinsyc's solutions for device development 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 hardware reference designs and platforms, and services to the mobile and embedded device marketplace. Device development solutions include the Soleus[®] software platform, and other software, enabling technology, testing tools, hardware reference designs and platforms, and engineering services. These products and services are sold to, original equipment manufacturers ("OEMs"), original device manufacturers ("ODMs"), software and silicon providers and mobile service providers.

The navigation and LBS solutions are sold to original equipment manufacturers ("OEMs"), and original device manufacturers ("ODMs"), who deploy mobile products such as consumer mobile handsets and personal navigation devices ("PNDs").

The Company's products and engineering services generate value for its customers by simplifying complex mobile technology development, thereby allowing increased flexibility and innovation 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 growth in complex mobile devices like smart phones, Mobile Internet Devices (MIDs), tablet devices, ereaders, industrial handhelds, navigation devices, and wireless embedded devices, as well as the strong growth of mobile applications, especially navigation and location based services. Intrinsyc believes these markets will provide increased demand for its products and services.

Intrinsyc markets its products and services through an experienced sales and business development team based in Canada and the United States.

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 expanded the Company's mobile software product portfolio with the addition of a navigation software application. Subsequently, the Beijing development center became an asset for cost effective delivery of engineering services, and support of regional customers complementing the Company's device development solutions..

SIGNIFICANT EVENTS FOR 2009

Financial Highlights

- Revenue decrease of 29% from the year ended December 31, 2008 which was primarily attributable to lower revenues attributable to the Company's Solutions Engineering due primarily to the decline in outsourced development services provided to Symbian, as a result of the decision by Symbian to cease marketing the Symbian OS as a commercial product after the acquisition of Symbian by Nokia in early 2009.
- Operating expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Asset impairment, Restructuring charges and Loss on disposal of equipment)¹ reduced by 64% from the year ended December 31, 2008. The decrease in total operating expenses was due to decreased

¹ Operating expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Asset impairment, Restructuring charges and Loss on disposal of equipment) is a non-generally accepted accounting principle ("GAAP") measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure.

costs in all areas of operations, primarily due to a decrease in headcount as a result of the Company's restructuring initiatives in late 2008 and in further increased operating efficiencies during 2009.

- Decrease in net loss of 92% to \$2,930,105 in the year ended December 31, 2009 over the net loss during the year ended December 31, 2008 of \$38,859,882.
- Cash decreased 6% during the year ended December 31, 2009 (from \$12.4 million as of December 31, 2008 to \$11.7 million as at December 31, 2009). Cash used in operations during the year ended December 31, 2009 was approximately \$2.3 million which was offset primarily by foreign exchange of approximately \$1.6 million due the strengthening of the Canadian dollar.
- EBITDA² of (\$293,460) for the year ended December 31, 2009 compared to EBITDA of (\$14.6 million) for the year ended December 31, 2008. The improved EBITDA was due to the decrease in total operating expenses in all areas of operations, primarily due to a decrease in headcount as a result of the Company's restructuring initiatives in late 2008 and in further increased operating efficiencies during 2009.
- The Company entered into an agreement with the National Research Council Canada ("NRC") under its' Industrial Research Assistance Program ("IRAP") on June 30, 2009. Under this agreement, the NRC will reimburse the Company 75% of 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.
- 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 \$0.60 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. 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.

Customer Highlights

- Signed Soleus license and engineering services agreement with Elitegroup Computer Systems (ECS).
- Announced a software and services agreement with Supa Technology Co., Ltd. for the Soleus Transit – Navigation Edition.
- Announced engineering services with Marvell to develop S60 device drivers for the Marvell 8W8688 dual-radio WLAN+Bluetooth[®] chip.
- Selected by LG Electronics (LG), a worldwide technology and design leader in mobile communications to provide Destinator navigation and LBS software for multiple models of handsets running on Android, Symbian and Windows Mobile[®] operating systems.
- Signed license agreement with Goodkap! in which Intrinsic will provide a complete solution that includes Soleus Transit platform and Destinator navigation software as well as its ToBe Gateway server technology.
- Signed an engineering services agreement with a Fortune 500 company to assist in development of a mobile consumer electronics device based on Android.
- Signed a follow-on engineering services agreement with a Fortune 500 company to assist in development of a mobile consumer electronics device based on Android. This agreement was a follow-on to the engagement previously announced in the first quarter of 2009.

² EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non- 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. EBITDA referenced here also does not include foreign exchange gains or losses, Technology Partnerships Canada ("TPC") funding investment, stock-based compensation, loss on disposal of equipment, asset impairment or restructuring charges.

- LG commenced shipping Destinator 9 on select smart phones.
- Hong Kong-based GPS Technologies Company, Ltd. (GPS-E) began shipping a connected PND (cPND) running on the Soleus Transit software platform. In November 2008, GPS-E licensed Soleus Transit, a turnkey software platform optimized for the development of connected personal navigation devices. Soleus Transit allows device makers to add compelling features that enable innovative and differentiated devices while significantly reducing development time and costs.
- A leading producer of DC power systems selected the Intrinsic Device Development Solutions group to design and implement a User Interface (UI) system based on Microsoft Windows Embedded CE 6.0. The dynamic UI system is being developed for advanced digital controllers for DC power system monitoring and control. The new UI will allow users of these products to access a management website from a broad range of web browsers and display screens, ranging from X VGA desktop to QVGA mobile.
- Led the systems integration of the eBook reader recently announced by Barnes & Noble.com www.bn.com, a wholly owned subsidiary of Barnes & Noble, Inc. (NYSE:BKS). Intrinsic provided both proprietary software and engineering services to build the Android based platform software, and assisted with application development. Intrinsic enhanced the Android operating system functionality by creating a software platform that abstracted the hardware from the applications allowing the application development team to build feature-rich applications running across the eBook reader's unique dual screen design.
- Destinator 9 was selected by Moscow-based Vobis Computer, to power the GPS navigation experience in the newest additions to Vobis' handset and Personal Navigation Device (PND) portfolio.

Major Management and Director Changes

- Announced the departure of Mark Longo (Vice President of Corporate Development, General Counsel, and Corporate Secretary) effective March 31, 2009. Appointed George Reznik as Corporate Secretary with oversight of the Investor Relations and Legal functions effective March 31, 2009.
- Announced appointment of David Manuel as Vice President & General Manager, Solutions Engineering effective March 31, 2009.
- Announced appointment of Tracy Rees as President and Chief Executive Officer effective June 5, 2009.
- Announced appointment of Howard "Skip" Speaks to the Board of Directors effective August 11, 2009.

Marketing Highlights

- Presented a series of new mobile software solutions at the Mobile World Congress in Barcelona, Spain in February 2009.
- Presented "Six Keys to Successful Converged Device Development" at the Embedded Systems Conference (ESC) Boston 2009, on September 22, 2009.
- Recipient of a Windows Embedded Excellence Award for "2009 North American Partner of the Year" in the Consumer Devices category.
- Presented three technical sessions at the ARM Techcon3 (October 21-23, 2009) at the Santa Clara Convention Center.
- Demonstrated (along with Ubiquisys) the UX-Zone(tm) femtocell application at the Symbian Exchange and Exposition 2009 in London's Earls Court. Intrinsic's UX-Zone incorporates femtocell presence triggers from Ubiquisys, changing the appearance of the phone interface automatically as one enters the home or office.
- Launched a new version of Destinator GPS navigation software for Symbian Qt phones and touch devices. Starting in early 2010, Destinator 9 is available through Ovi Store, Nokia's online application and media portal for Symbian handsets.

- Announced online availability for consumers to purchase and download Destinator 9 GPS Navigation. Destinator 9 is available today on the Company's corporate web store and the newly launched Destinator NavStore, an online marketplace for location-based services and navigation-related content.
- Announced that Destinator 9 is immediately available for purchase on the Android Market, the online applications and media portal for Android mobile phones. Destinator delivers the mobile industry's most reliable navigation and most compelling user experience specifically designed for Android smart phones. With a host of new capabilities and features designed to get people to their destinations easily, quickly and safely, Destinator 9 for Android includes updated on-board maps of the US and Canada from the leading provider of navigation map data - NAVTEQ - along with rich visual content such as extended lane guidance, speed limits and 2D building footprints.

Partner Highlights

- Announced a broad-based alliance with the Blom Group, a leading international provider in the collection and processing of geographic information. Intrinsic's line-up of Destinator software products for turn-by-turn, voice-guided navigation now includes a version that tightly integrates the Blom 3D PhotoNav[®] oblique digital aerial images with Destinator's routing engine, Point of Interest search functions, and landmarks and street names covering more than 1,000 cities in Europe.
- Along with Ubiquisys, the leading developer of 3G femtocells, announced UX-Zone, an application that changes the appearance of the Android phone interface automatically as you enter your home or office. UX-Zone from Intrinsic incorporates femtocell presence triggers from the Ubiquisys FemtoApps initiative.
- Entered into a worldwide VAR agreement with Entrek Software, Inc., makers of CodeSnitch[™]. CodeSnitch is an automated code-debugging tool for Windows Embedded CE and Windows Mobile. Mobile and embedded device developers at OEMs, silicon vendors and carriers can now get CodeSnitch licenses directly from Intrinsic.
- Entered into a worldwide Value Added Reseller (VAR) agreement with Kryos, makers of the Velocity Mobile Platform. Launched in May 2009, Velocity is a leading integrated development environment specifically designed for building enterprise applications that run on BlackBerry[®] smart phones. Intrinsic will resell Velocity license subscriptions to enterprises, carriers, and independent software vendors as well as offer a wide range of professional services, including consulting, training, technical support, and complete application development and deployment.
- Announced that the Destinator GPS navigation software solution is currently shipping in a smart phone companion navigation system being sold in China. The device is an ultra-durable Bluetooth-enabled portable GPS navigation system that combines the confidence of finding destinations with a speaker for hands-free smart phone connectivity on the road.
- Announced that Destinator GPS Navigation is available on Samsung Omnia Pro smart phones in Brazil. The Microsoft Windows Mobile-based smart phones with Destinator preloaded are being sold through the dealer and retail store network of Vivo (NYSE: VIV), a major wireless carrier with more than 43 million subscribers.
- Entered into a global reseller agreement with Delta Mobile Systems, a leading provider of innovative wireless products and services. Intrinsic will resell the DM600-DEV, a comprehensive development platform for Android-based Internet appliances, wired and wireless gateways, monitoring and control systems, and wireless handheld products.

Technological Highlights

- Launched three new solutions for Android Devices (Destinator for Android, RapidRIL™ for Android and Telephony Test for Android). Destinator for Android enables turn-by-turn navigation on Android based smart phones, and the other two solutions enable improved quality and faster time to market for developers of Android devices.
- Launched Destinator 9, a leader in cross-platform GPS navigation software.
- Opened the Intrinsic Center of Excellence, which will support Android software development in Beijing, China. Aiming to serve the growing number of handset manufacturers based in Asia choosing Android, Intrinsic's Beijing center offers a wide range of software solutions and engineering services that speed time to market and increase device innovation and quality.
- Launched industry's only commercial-grade, open market solution for developing radio interface layer (RIL) software for Android mobile phones. Intrinsic RapidRIL, a proven 3G radio control interface product, has been adapted to the Infineon XMM™ platforms and X-Gold families of mobile device baseband processors supporting GSM/GPRS, EDGE, and WCDMA/HSPA technologies. RapidRIL support for the Infineon modem platforms will enable manufacturers to accelerate the process of designing, building, and shipping high-quality Android phones into the marketplace.
- Announced an expansion of solutions and expertise to help customers bring highly differentiated devices based on the next generation of Microsoft Windows Embedded CE, Windows Embedded CE 6.0 R3, to market faster. As an early adopter of Windows Embedded CE 6.0 R3, Intrinsic engineers worked to get up-to-speed on the new Silverlight for Windows Embedded user interface (UI) framework in conjunction with the official launch by Microsoft. As part of this effort, Intrinsic has built up expertise in Silverlight for Windows Embedded UI development with engineering and design resources in Beijing and Vancouver to support global OEM development teams operating around the clock.
- Announced availability of Windows Embedded CE 6.0 Release 3 (R3) Board Support Package (BSP) for the Cerf® Board 270 reference designs. The new software offering will enable developers of embedded and handheld devices to leverage the latest Microsoft Windows technologies, including Silverlight for Windows Embedded and touch/gesture input, to create rich applications and user interfaces.

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.

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, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Cash and cash equivalents	\$11,710	\$11,069	\$10,604	\$10,744	\$12,391	\$19,659	\$30,006	\$35,246
Working capital	\$11,294	\$11,012	\$9,935	\$8,933	\$10,574	\$17,353	\$31,203	\$36,494
Total assets	\$20,198	\$20,784	\$20,183	\$20,924	\$24,841	\$57,757	\$55,164	\$57,379
Other long term financial liabilities	\$7	\$14	\$21	\$77	\$39	\$107	\$188	\$109
Shareholders' equity	\$16,045	\$15,979	\$14,755	\$14,160	\$16,237	\$47,821	\$48,779	\$52,304

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	Three months ended	Three months ended	Three months ended	Three months ended
	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,
	2009	2009	2009	2009	2008	2008	2008	2008
Revenue	\$3,854	\$4,355	\$4,875	\$4,401	\$5,728	\$7,870	\$5,566	\$5,556
Cost of goods sold	1,542	1,771	2,145	2,281	2,639	3,093	2,956	3,020
Gross margin	2,312	2,584	2,730	2,120	3,089	4,777	2,610	2,536
Expenses								
Sales and marketing	707	750	745	1,144	1,181	2,317	1,822	1,828
Research and development	1,133	939	1,141	1,363	3,437	4,097	2,695	2,547
Administration	157	623	534	804	1,577	2,466	1,795	1,821
Amortization	288	306	339	319	698	738	211	212
Stock-based compensation	149	168	109	85	215	280	283	284
Technology Partnerships Canada								
Funding Investment	-	64	143	135	24	117	159	23
Loss (gain) on disposal of equipment	24	(40)	200	21	-	-	-	-
Total operating expenses	2,458	2,810	3,211	3,871	7,132	10,015	6,965	6,715
Loss before other items and income taxes	(146)	(226)	(481)	(1,751)	(4,043)	(5,238)	(4,355)	(4,179)
Other items	304	126	314	(152)	21,139	377	(202)	(386)
Loss before income taxes	(450)	(352)	(795)	(1,599)	(25,182)	(5,615)	(4,153)	(3,793)
Income tax expense	(69)	(136)	(86)	25	(148)	121	98	44
Net loss	(\$381)	(\$216)	(\$709)	(\$1,624)	(\$25,034)	(\$5,736)	(\$4,251)	(\$3,837)
Loss per share	\$0.00	\$0.00	(\$0.01)	(\$0.01)	(\$0.15)	(\$0.04)	(\$0.03)	(\$0.04)

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2009

The following analysis of the results of operations for the three months ended December 31, 2009 includes comparisons to the three months ended December 31, 2008.

Revenue

Revenues are derived from the provision of services, as well as the licensing of software and the sale of hardware by the following sources:

- Device Development Solutions (formerly Engineering Services) consisting of software development, modifications, consulting, implementation, training and integration services;
- Software Solutions which includes 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.

Device Development Solutions revenue may be derived from software development, modifications, consulting, implementation, training, customer support and integration services. The services provided to a customer may be bundled, to meet the customer's specific needs. The services provided are typically done on a stand-alone basis, 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 customer support services, or may be for specific consulting and software modification services. Software Solutions revenue is also generated by way of licensing software products, along with providing related customer services.

<i>Revenue by Source</i>	Three months ended December 31, 2009	%	Three months ended December 31, 2008	%	Change
Device Development Solutions	\$1,622,334	42%	\$3,032,103	53%	(46%)
Software Solutions	2,003,355	52%	2,486,158	43%	(19%)
Hardware	228,617	6%	209,303	4%	9%
Total revenue	\$3,854,306	100%	\$5,727,564	100%	(33%)

Revenue for the three-month period ended December 31, 2009 decreased by 33% from the three months ended December 31, 2008 with the decrease over the prior quarter attributable to lower revenues attributable to the Company's Device Development Solutions resulting primarily from decreased development service revenue for Symbian attributable to the acquisition of Symbian by Nokia in early 2009 which resulted in the Symbian OS no longer being marketed on a commercial basis.

Device Development Solutions revenue for the three months ended December 31, 2009 was \$1.6 million, compared to \$3.0 million for the three months ended December 31, 2008 due primarily to the decline in outsourced development services provided to Symbian, as a result of the decision by Symbian to cease marketing the Symbian OS as a commercial product.

Total revenues attributable to the Company's Software Solutions decreased by 19% during the three months ended December 31, 2009 compared to the same period in 2008. The decrease in software solutions revenue in the three months ended December 31, 2009 compared to December 31, 2008 was primarily due to lower sales of the Destinator navigation software, a product which the Company began selling after its acquisition in July 2008.

Software Solutions increased as a percentage of total revenue for the three months ended December 31, 2009, to 52% of total revenues during the three months ended December 31, 2009 from 43% for the three months ended December 31, 2008.

Hardware revenue was \$228,616 in the three months ended December 31, 2009 accounting for 6% of total revenue compared to \$209,303 or 4% of total revenue for the three months ended December 31, 2008 due to increased sales from existing customers.

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

	Three months ended December 31, 2009	Three months ended December 31, 2008	Change
Revenue	\$1,888,022	\$2,886,293	(35%)
Percentage of total revenue	49%	50%	

The three customers accounting for 49% of the total revenue for the three months ended December 31, 2009 were not the same three customers that accounted for 50% for the three months ended December 31, 2008.

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

	Three months ended December 31, 2009	%	Three months ended December 31, 2008	%	Change
United States	\$2,614,063	68%	\$1,943,644	34%	34%
Canada	67,089	2%	14,580	Less than 1%	360%
Europe	546,782	14%	3,144,145	55%	(83%)
Asia	162,573	4%	297,862	5%	(45%)
Other	463,799	12%	327,333	6%	42%
	\$3,854,306	100%	\$5,727,564	100%	(33%)

The Company has historically generated the majority of its revenue from the United States and European markets but has experienced increasing revenue attributable to other regions, primarily in Asian markets. During the three months ended December 31, 2009, the Company experienced lower revenues from customers based in Asia than previously experienced or expected to experience in the future.

Gross Margin

Gross margins on Software Solutions revenue are generally significantly higher than the gross margins obtained on Solutions Engineering revenue, which are generally in the range of 30% to 40%. As a result, the overall gross margin was a blend of these margins.

	Three months ended December 31, 2009	%	Three months ended December 31, 2008	%	Change
Revenues	\$3,854,306	100%	\$5,727,564	100%	(33%)
Cost of sales	1,542,204	40%	2,639,255	46%	(42%)
Gross margin	\$2,312,102	60%	\$3,088,309	54%	(25%)

Gross margin percentage for the three months ended December 31, 2009 was 60%, representing an increase from the gross margin for three months ended December 31, 2008 of 54%. The increase over the prior period is due to increased revenues attributable to the Company's Software Solutions business at higher gross margins.

Operating Expenses

	Three months ended December 31, 2009	Three months ended December 31, 2008	Change
Sales and marketing	\$ 706,946	\$ 1,181,411	(40%)
Research and development	1,133,457	3,437,036	(67%)
Administration	156,761	1,577,367	(90%)
Amortization	287,641	697,810	(59%)
Stock-based compensation	148,956	214,509	(31%)
Technology Partnerships Canada Funding Investment	-	24,338	(100%)
Asset impairment	-	19,278,706	(100%)
Restructuring charges	-	3,011,947	(100%)
Loss (gain) on disposal of equipment	23,631	-	N/A
Total operating expenses	\$2,457,392	\$29,423,124	(91%)
As a percentage of total revenue	64%	514%	

Total operating expenses for the Company for the three months ended December 31, 2009 decreased by 91% to \$2.5 million over the three-month period ended December 31, 2008. The decrease in total operating expenses was due to decreased costs in all areas of operations, primarily due to a decrease in headcount as a result of the Company's restructuring initiatives in late 2008 and in further increased operating efficiencies during the three months ended December 31, 2009. Administration expenses were also lower due to a one time reversal of value added taxes booked by the Chinese subsidiary prior to the Destinator acquisition in 2008. The Company received confirmation from the local tax authority to support the reversal of the value added taxes.

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, 2003 and 2008 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 relationships, 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.

Operating Expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Asset impairment, Restructuring charges and Loss on disposal of equipment)

	Three months ended December 31, 2009	Three months ended December 31, 2008	Change
Sales and marketing	\$ 706,946	\$1,181,411	(40%)
Research and development	1,133,457	3,437,036	(67%)
Administration	156,761	1,577,367	(90%)
Total operating expenses	\$1,997,164	\$6,195,814	(68%)
As a percentage of total revenue	52%	108%	

Total operating expenses consisting of sales and marketing, research and development and administration decreased by 68% to \$2.0 million for the three months ended December 31, 2009 from \$6.2 million for the three months ended December 31, 2008. In particular, sales and marketing activities decreased by approximately \$475,000, research and development costs decreased by approximately \$2.3 million and administration expenses decreased by approximately \$1.4 million over the fourth quarter of 2008.

Sales and Marketing

	Three months ended December 31, 2009	Three months ended December 31, 2008	Change
Sales and marketing	\$706,946	\$1,181,411	(40%)
As a percentage of total revenue	18%	21%	

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

Sales and marketing expense for the three months ended December 31, 2009 decreased by 40% to \$707,000 from \$1.2 million for three months ended December 31, 2008.

The decrease in sales and marketing expense was primarily due to a decrease in employee related costs, commissions, travel and entertainment, advertising and promotion and office costs.

Research and Development

	Three months ended December 31, 2009	Three months ended December 31, 2008	Change
Research and development	\$1,133,457	\$3,437,036	(67%)
As a percentage of total revenue	29%	60%	

The Company has research and development groups primarily located in China. 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 \$1.1 million for the three months ended December 31, 2009 which was primarily related to the Company's Destinator product offering. This represents a decrease of 67% from the \$3.4

million for three months ended December 31, 2008. The decrease in research and development costs during the three months ended December 31, 2009 over the prior year was attributable largely to a lower headcount. The Company had a total of 61 employees in its research and development department as at December 31, 2009 compared to 86 as at December 31, 2008.

Administration

	Three months ended December 31, 2009	Three months ended December 31, 2008	Change
Administration	\$156,761	\$1,577,367	(90%)
As a percentage of total revenue	4%	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 general administrative costs.

Administration expenses for the three months ended December 31, 2009 were \$157,000 representing a decrease of 90% from the \$1.6 million for the three months ended December 31, 2008. The decrease in the administration expense for the three months ended December 31, 2009 over the same period in the prior year was primarily due to a decrease in employee related costs, facility related overhead and a decrease of professional fees. Administration expenses were also lower due to a one time reversal of value added taxes booked by the Chinese subsidiary prior to the Destinator acquisition in 2008. During the year, the Company received confirmation from the local tax authority to support the reversal of the value added taxes.

EBITDA

Earnings before amortization, stock-based compensation, TPC funding investment, asset impairment, restructuring charges and loss on disposal of equipment (“EBITDA”) was \$315,000 for the three months ended December 31, 2009 compared to (\$3.1 million) for the three months ended December 31, 2008.

	Three months ended December 31, 2009	Three months ended December 31, 2008
Loss before other expense (earnings) and income taxes	(\$145,290)	(\$26,334,815)
Less: Amortization	\$287,641	\$697,810
Less: Stock-based compensation	\$148,956	\$214,509
Less: TPC Funding Investment	-	\$24,338
Less: Asset impairment	-	19,278,706
Less: Restructuring charges	-	3,011,947
Less: Loss (gain) on disposal of equipment	23,631	-
EBITDA	\$314,938	(\$ 3,107,505)

The increase in EBITDA was primarily due to decreasing operating expenses all areas of operations due to a decrease in headcount as a result of the Company’s restructuring initiatives in late 2008 and in further increased operating efficiencies during the three months ended December 31, 2009.

Other Items

	Three months ended December 31, 2009	Three months ended December 31, 2008
Foreign exchange loss (gain)	\$164,075	(\$1,097,138)
Interest expense (income)	(25,515)	(54,195)
Extraordinary expenses (income)	166,171	-
Other items	\$304,731	(\$1,151,333)

Other items for the three months ended December 31, 2009 totaled net other loss of \$304,731 compared to net other income of \$1,151,333 for the three months ended December 31, 2008. Net other loss for the three months ended December 31, 2009 was attributable to a foreign exchange loss of \$164,075 and a reclassification to income taxes of \$166,171 pertaining to the reversal during the third quarter of withholding taxes booked by the Israeli subsidiary prior the Destinator acquisition in 2008. This was offset by interest income of \$25,515.

SELECTED ANNUAL INFORMATION

The following selected annual information (presented in accordance with accounting principles generally accepted in Canada) of the results of operations for the year ended December 31, 2009 includes comparisons to the year ended December 31, 2008, four months ended December 31, 2007 and the year ended August 31, 2007. Given that the Company's year-end changed to December 31 from August 31 in November 2007, information for the year ended August 31, 2007 is also included as Management believes a comparison of yearly results ended December 31, 2009 and 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 periods.

	Year ended December 31, 2009	Year ended December 31, 2008	Four months ended December 31, 2007	Year ended August 31, 2007
Revenue	\$17,485,074	\$24,719,235	\$5,259,571	\$17,574,483
Net loss	\$ 2,930,105	\$38,859,882	\$7,347,111	\$15,174,291
Basic loss per common share (basic and diluted)	\$ 0.02	\$ 0.26	\$ 0.06	\$ 0.16

As at	December 31, 2009	December 31, 2008	December 31, 2007	August 31, 2007
Total assets	\$20,197,989	\$24,841,424	\$32,691,246	\$37,240,568
Total long term financial liabilities	\$ 7,388	\$ 39,483	\$ 138,605	\$ 174,576

See Financial Results section below for discussion on Revenue and Net Loss for the year. The decrease in total assets is primarily due to cash used of approximately \$6.0 million since August 31, 2007, the write off of goodwill of approximately \$14.3 million during the year ended December 31, 2008 offset by an increase of intangible assets of \$4.0 million due to the acquisition of Destinator. The decrease in long term liabilities is due to the repayments of capital lease obligations during the normal course of business as well as a decrease in the Company's future income tax liabilities.

FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2009

The following analysis of the results of operations for the year ended December 31, 2009 includes comparisons to the year ended December 31, 2008.

Revenue

<i>Revenue by Source</i>	Year ended December 31, 2009		Year ended December 31, 2008		Change
		%		%	
Device Development Solutions	\$ 8,623,405	50%	\$15,748,100	64%	(45%)
Software Solutions	7,750,175	44%	7,611,145	31%	2%
Hardware	1,111,494	6%	1,359,990	5%	(18%)
Total revenue	\$17,485,074	100%	\$24,719,235	100%	(29%)

Revenue for the year ended December 31, 2009 decreased by 29% to \$17.5 million compared to the year ended December 31, 2008. This was attributable to decreased Device Development Solutions revenue primarily due to the decline in outsourced development services provided to Symbian as a result of Symbian's decision to cease commercial sales of the Symbian operating system. This was offset by an increase in the sale of Software Solutions inclusive of the Soleus, EIS and Destinator product offerings. Revenue attributable to software solutions include license, maintenance, support and service revenues generated by the Company's software solutions initiatives.

During each of the years ended December 31, 2009 and December 31, 2008, a significant portion of the Company's total revenues were derived from sales to three large customers. These customers accounted for the following percentages of the Company's total revenues as indicated below:

	Year ended December 31, 2009	Year ended December 31, 2008	Change
Revenue	\$6,582,100	\$13,842,772	(52%)
Percentage of total revenue	38%	56%	

The three customers accounting for 56% of the total revenue for year ended December 31, 2008 were not the same three customers that accounted for 38% of the total revenue for the year ended December 31, 2009.

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		Change
		%		%	
United States	\$11,054,199	63%	\$ 8,855,756	36%	25%
Canada	251,693	1%	375,764	2%	(33%)
Europe	3,291,035	19%	12,035,512	49%	(73%)
Asia	1,492,849	9%	2,348,637	10%	(36%)
Other	1,395,298	8%	1,103,566	3%	26%
	\$17,485,074	100%	\$24,719,235	100%	(29%)

Revenue for the year ended December 31, 2009 included \$1.5 million or 9% from primarily Asian-based customers. During the year ended December 31, 2009, the Company experienced lower revenues from customers based in Asia than previously experienced or expected to experience in the future. The decrease in revenue from European customers was due to a decline in outsourced development services provided to Symbian arising from the decision by Symbian to cease commercial sales of the Symbian operating systems.

Gross Margin

Gross margins on Software Solutions revenue of approximately 75% to 85% are significantly higher than the gross margins obtained on Solutions Engineering revenue which are generally in the range of 30% to 40%. As a result, the overall gross margin is a blend of these margins.

	Year ended December 31, 2009	%	Year ended December 31, 2008	%	Change
Revenues	\$17,485,074	100%	\$24,719,235	100%	(29%)
Cost of sales	7,738,538	44%	11,707,991	47%	(33%)
Gross margin	\$ 9,746,536	56%	\$13,011,244	53%	(26%)

Gross margin for the year ended December 31, 2009 decreased to \$9.7 million, but increased from 53% of total revenue to 56% of total revenue. The increase in gross margin percentage for the year ended December 31, 2009 over the same period in the prior year is directly attributable to improved margins related to Device Development Solutions and increased Software Solutions revenues.

Operating Expenses

	Year ended December 31, 2009	Year ended December 31, 2008	Change
Sales and marketing	\$ 3,345,696	\$ 7,149,756	(53%)
Research and development	4,576,596	12,775,487	(64%)
Administration	2,117,704	7,659,316	(72%)
Amortization	1,252,184	1,858,002	(33%)
Stock-based compensation	510,238	1,061,761	(52%)
Technology Partnerships Canada Funding Investment	342,055	323,502	6%
Asset impairment	-	19,278,706	(100%)
Restructuring charges	-	3,826,615	(100%)
Loss on disposal of equipment	204,166	-	N/A
Total operating expenses	\$12,348,639	\$53,933,145	(77%)
As a percentage of total revenue	71%	218%	

Total operating expenses for the Company for the year ended December 31, 2009 decreased by 77% to \$12.3 million compared to the year ended December 31, 2008 operating expenses of \$53.9 million. The decrease in total operating expenses was due to decreased costs in all areas of operations as well as no asset impairment nor restructuring charges. The decrease in costs was primarily due to a decrease in headcount as a result of the restructuring that took place in late 2008 as well as negotiated concessions from several vendors during the period.

During the year 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, 2003 and 2008 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 relationships, 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.

Operating expenses expressed as a percentage of revenue declined to 71% in the year ended December 31, 2009 from 218% in the year ended December 31, 2008.

Operating Expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Asset impairment, Restructuring charges and Loss on disposal of equipment)

	Year ended December 31, 2009	Year ended December 31, 2008	Change
Sales and marketing	\$ 3,345,696	\$ 7,149,756	(53%)
Research and development	4,576,596	12,775,487	(64%)
Administration	2,117,704	7,659,316	(72%)
Total operating expenses	\$10,039,996	\$27,584,559	(64%)
As a percentage of total revenue	57%	112%	

Total operating expenses consisting of sales and marketing, research and development and administration decreased by 64% to \$10.0 million for the year ended December 31, 2009 from \$27.6 million for the year ended December 31, 2008. In particular, sales and marketing activities decreased by approximately \$3.8 million, research and development costs decreased by approximately \$8.2 million and administration expenses decreased by approximately \$5.5 million over previous year. The decrease for the year ended December 31, 2009 over the prior year is the result of the Company's restructuring initiatives in late 2008 and prudent cost management resulting in increased operating efficiencies in 2009.

Sales and Marketing

	Year ended December 31, 2009	Year ended December 31, 2008	Change
Sales and marketing	\$3,345,696	\$7,149,756	(53%)
As a percentage of total revenue	19%	29%	

Total sales and marketing expenses for the year ended December 31, 2009 decreased approximately \$3.8 million, or 53% when compared to the year ended December 31, 2008. The decrease in sales and marketing expense was primarily due to a decrease in employee related costs, commissions, travel and entertainment, advertising and promotion and office costs.

Research and Development

	Year ended December 31, 2009	Year ended December 31, 2008	Change
Research and development	\$4,576,596	\$12,775,487	(64%)
As a percentage of total revenue	26%	52%	

Research and development costs for the year ended December 31, 2009 declined by approximately \$8.2 million or 64% over the year ended December 31, 2008 which is due to a decrease in headcount as a result of the restructuring that took place in late 2008. The research and development costs during the year ended December 31, 2009 were primarily attributable to the Company's Destinator navigation software product offering while the research and development costs during the prior year were primarily attributable to the Company's Soleus software product offering during the first six months of 2008 and the Destinator product offering from July 2008 onwards.

Administration

	Year ended December 31, 2009	Year ended December 31, 2008	Change
Administration	\$2,117,704	\$7,659,316	(72%)
As a percentage of total revenue	12%	31%	

General and administration expense for the year ended December 31, 2009 decreased by \$5.5 million or 72% when compared to the year ended December 31, 2008. This decrease is attributable to decreased salaries and benefits, travel, professional fees and general operating expenses. Administration expenses were also lower due to a one time reversal of value added taxes booked by the Chinese subsidiary prior to the Destinator acquisition in 2008. The Company received confirmation from the local tax authority to support the reversal of the value added taxes.

EBITDA

Earnings before amortization, stock-based compensation, TPC funding investment, asset impairment, restructuring charges and loss on disposal of equipment ("EBITDA") was (\$293,000) for the year ended December 31, 2009 compared to (\$14.6 million) for the year ended December 31, 2008.

	Year ended December 31, 2009	Year ended December 31, 2008
Loss before other expense (earnings) and income taxes	(\$2,602,103)	(\$40,921,901)
Less: Amortization	\$1,252,184	\$1,858,002
Less: Stock-based compensation	\$510,238	\$1,061,761
Less: TPC Funding Investment	\$342,055	\$323,502
Less: Asset impairment	-	19,278,706
Less: Restructuring charges	-	3,826,615
Less: Loss (gain) on disposal of equipment	204,166	-
EBITDA	(\$ 293,460)	(\$14,573,315)

The increase in EBITDA was primarily due to decreasing operating expenses in all areas of operations due to a decrease in headcount as a result of the Company's restructuring initiatives in late 2008 and in further increased operating efficiencies during the year December 31, 2009.

Other Items

	Year ended December 31, 2009	Year ended December 31, 2008
Foreign exchange loss (gain)	\$665,847	(\$1,570,634)
Interest expense (income)	(72,350)	(606,605)
Other items	\$593,497	(\$2,177,239)

Other items for the year ended December 31, 2009 totaled net other loss of \$593,497 compared to net other income of \$2.2 million for the year ended December 31, 2008. Net other loss during the year ended December 31, 2009 consisted of foreign exchange loss of \$665,847 offset by interest income of \$72,350. The decrease in interest income for the year ended December 31, 2009 over the prior year is attributable to decline in average treasury investment balance during the period in conjunction with reduction in interest rates for such investments.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at December 31, 2009, the Company had cash totaling approximately \$11.7 million, with working capital³ of \$11.3 million, as compared to cash of \$12.4 million and working capital of \$10.6 million as at December 31, 2008.

Three Months ended December 31, 2009

Cash provided by (used in):	Three months ended December 31, 2009	Three months ended December 31, 2008
Operating activities	\$435,010	(\$4,313,766)
Investing activities	2,741	(19,062)
Financing activities	(6,835)	(58,724)
Effect of exchange rate changes on cash and cash equivalents	209,987	(2,875,713)
Increase (decrease) in cash and cash equivalents	\$640,903	(\$7,267,265)

As a result of the Company's aggressive cost reduction initiatives in late 2008, the cash provided by operating activities in the three months ended December 31, 2009 was \$435,000 compared to cash used in operations of \$4.3 million during the three months ended December 31, 2008.

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

Cash provided by investing activities for the three months ended December 31, 2009 was \$2,700 compared with cash used of \$19,000 for the three months ended December 31, 2008. During the three months ended December 31, 2009, cash provided related to the sale of fixed assets while cash used during the three months ended December 31, 2008 was attributable to the purchase of equipment.

During the three months ended December 31, 2009 and December 31, 2008, cash used by financing activities was attributable primarily to repayments for capital lease obligations.

Year ended December 31, 2009

Cash provided by (used in):	Year ended December 31, 2009	Year ended December 31, 2008
Operating activities	(\$2,302,438)	(\$14,285,234)
Investing activities	(55,858)	(10,981,475)
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

As a result of the Company's aggressive cost reduction initiatives in late 2008, the Company has reduced the cash used in operating activities for the year ended December 31, 2009 to \$2.3 million, a decrease of 84% over the year ended December 31, 2008.

³ 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 comparable periods was attributable to research and development expenditures incurred for the Company's Destinator 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 year ended December 31, 2009 was \$56,000 which was attributable to the purchase of equipment. This is compared to the same period in the prior year when the Company used approximately \$11.0 million for investing activities due to \$8.0 million related to the acquisition of Destinator assets on July 9, 2008, \$1.4 million for deferred acquisition costs related to the acquisition of Destinator assets and \$1.6 million in equipment purchases.

Cash provided from financing activities during the year ended December 31, 2009 related to the release of restricted cash related to the Israeli office lease during the period offset by repayments for capital lease obligations. This compares to the year ended December 31, 2008, when exercise of employee options and 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 U.S. dollars. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. As a result of the Canadian dollar strengthening 2% during the three months ended December 31, 2009, cash and cash equivalents increased by approximately \$210,000. The Canadian dollar strengthened 16% during the year ended December 31, 2009 which increased cash and cash equivalents by \$1.6 million. 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 and year ended December 31, 2009. 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.

The Company's existing cash resources are sufficient, in management's opinion, in conjunction with anticipated revenues to fund the business for the next twelve months. 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, 2009	As at December 31, 2008
Service engineers	55	106
Sales and marketing	7	23
Research and development	61	86
Administration	10	35
Total	133	250

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, China and the United States. Minimum lease payments as at December 31, 2009 are as follows for the years ending December 31:

Contractual Obligations	Total	F2010	F2011	F2012	F2013	F2014	F2015
Operating lease obligations	\$2,221,592	\$642,785	\$327,055	\$319,596	\$319,596	\$319,596	\$292,964

GOVERNMENT ASSISTANCE

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 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 paid and accrued approximately 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 \$22,063 and accordingly recorded a liability for this amount.

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.

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.

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 CDN \$93,244 against “Research and development” and received CDN \$66,129 for funding up to October 31, 2009. Expense reductions totaling CDN \$27,115 for November and December have been accrued.

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 \$0.60 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. 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. As of December 31, 2009, a total of CDN \$5,261 in premiums were outstanding.

INTANGIBLE ASSETS IMPAIRMENT

Due to ongoing operating losses of the Company and current volatility and uncertainty of global financial markets, there is a possibility that the carrying values attributable to the Company's intangible assets may become impaired. The recorded balance of intangible assets is \$3,880,481 as at December 31, 2009. Through the Destinator acquisition in July 2008, the Company identified \$13,698,000 in intangible assets. The Company performed an assessment of the fair value of its intangible assets as at December 31, 2008 resulting in an impairment charge of \$6.5 million recorded at that time. The Company completed an impairment analysis as at December 31, 2009 of its intangible assets and determined that no further impairment existed.

OFF-BALANCE SHEET ARRANGEMENTS

None.

TRANSACTIONS WITH RELATED PARTIES

None.

PROPOSED TRANSACTIONS

None.

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, 2009 consolidated financial statements as at and for the twelve-month period then ended.

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.

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 ratably 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.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on specific accounts past due. 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.

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

During the year 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. Based on anticipated revenues to fund the future estimated cash flows to be generated from such intangible assets the Company has assessed that there is no further impairment of such intangible assets for the twelve months ended December 31, 2009.

Changes in Accounting Policies

The following is an overview of accounting standard changes that the Company adopted during the year ended December 31, 2009:

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).

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.

Recent Accounting Pronouncements Issued and Not Yet Adopted

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 subsequent to a business combination. 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 judgments 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 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 late 2009, the Company commenced a comprehensive International Financial Reporting Standards (“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 is obtaining sufficient understanding of IFRS for implementation purposes.

The Company’s IFRS implementation project consists of three primary phases which will be completed by a combination of in-house resources and external consultants:

- Initial diagnostic phase – Involves preparing a preliminary impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact the Company’s reporting and the overall difficulty of the conversion effort.
- Impact analysis, evaluation and solution development phase – Involves the selection of IFRS accounting policies by senior management and the review by the Audit Committee, the quantification of the impact of changes on the Company’s existing accounting policies on the opening IFRS balance sheet and the development of draft IFRS financial statements.
- Implementation and review phase – Involves training key finance and other personnel and implementation of the required changes to our information systems and business policies and procedures. It will enable the Company to collect the financial information necessary to prepare IFRS financial statements and obtain audit committee approval of IFRS financial statements.

Financial reporting expertise and communication to stakeholders

The Company has retained external consultants to assist in establishing appropriate IFRS financial reporting at all levels of the business. Key finance and operational staff will be trained in IFRS starting in the second quarter of 2010. Educational information regarding IFRS implications will be issued to external constituents during the third quarter of 2010.

The Company also held an IFRS information session with the Audit Committee members, as part of the meeting to approve the 2009 annual financial statements. During this session, management and external consultants provided a review of the timeline for implementation, the implications of IFRS standards to the Company’s business and an overview of the impact to the financial statements. As a result of the information session, the Audit Committee members will review the Audit Committee Charter and make any necessary changes to reflect the requirements for IFRS financial expertise. The Audit Committee will continue to receive quarterly presentations and project status updates from management. The Company will also ensure that its key stakeholders are informed about the anticipated effects of the IFRS transition. During the third quarter of 2010, the Company will present IFRS information as part of its investor education presentations to highlight such anticipated effects on the Company.

The Company has completed the initial diagnostic phase and will continue to update its disclosures throughout 2010 to reflect specific actions taken to facilitate the adoption of IFRS, effective January 1, 2011. The differences as identified in the initial diagnostic phase and the Company’s proposed actions for fiscal 2010 are summarized below.

B) Impact on Financial Statement Presentation, Classification, and Disclosure

i) Financial Statement Presentation

The Company’s financial statements will have a different format upon transition to IFRS. The components of a complete set of IFRS financial statements are: statement of financial position (balance sheet), statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes including accounting policies. The income statement will be presented as a component of the statement of comprehensive income. The statement of financial position may be presented in ascending or descending order of liquidity. The income statement is classified by each major functional area – marketing, sales, research & development, administration, etc. In addition, IFRS requires more detailed note disclosures than those required by Canadian GAAP.

Impact on the Company: *The Company will reformat its financial statements in compliance with IAS 1 and elect to retain its existing presentation, (i.e., descending order of liquidity).*

ii) Deferred taxes

IFRS: IAS 12 requires presentation of all deferred tax balances as non-current. **Canadian GAAP:** Current balances are presented separately.

Impact on the Company: *The Company will reclassify deferred tax balances, if any, as non-current pursuant to IAS 12. The Company is currently in a net deferred tax asset position with a full valuation allowance provision. As a result, the Company does not expect any significant classification change upon the adoption of IAS 12.*

iii) Provisions

IFRS: a provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and require additional disclosure. Provisions are also classified as current or non-current as appropriate (IAS 37 - Provisions and other liabilities). **Canadian GAAP:** Accounts payable, accrued liabilities and provisions are disclosed on the statement of financial position as a single line item.

Impact on the Company: Provisions will be separately disclosed as required and any additional disclosures will be provided pursuant to IAS 37.

C) IFRS-1 Transitional Policy Choices and Exceptions for Retrospective Application

IFRS-1 contains the following policy choices with respect to first-time adoption that are applicable to the Company:

i) Business combinations:

During 2008, the Company completed the acquisition of certain assets and operations of Destinator Technologies with an aggregate purchase price of \$14.4 million inclusive of acquisition costs of \$2.1 million. IFRS 3, *Business Combinations* may be applied retrospectively or prospectively with respect to business combinations completed prior to January 1, 2010. The Company will elect not to apply IFRS 3 retrospectively to the acquisition of Destinator Technologies.

Impact on the Company: The Company will elect to early adopt CICA Handbook section 1582 *Business Combinations* (converged with IFRS 3) with respect to business combinations consummated on or after January 1, 2010, if any. The individual asset and liability balances originally recognized under Canadian GAAP are therefore subject to the transition provisions of specific IFRS standards applicable to those areas.

ii) Property, plant & equipment:

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical cost basis under Canadian GAAP.

Impact on the Company: The Company will elect to use the historical cost carrying values for property, plant, & equipment as determined under Canadian GAAP as for transitional purposes

iii) Cumulative translation adjustment

Included under Accumulated Other Comprehensive Income is a cumulative translation adjustment (CTA) balance relating to the unrealized translation gains and losses from converting the Company's integrated foreign subsidiaries from the Company's functional currency to the Company's reporting currency. Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary or associate was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date.

Impact on the Company: The Company will elect to reset cumulative translation gains and losses to zero at January 1, 2010.

iv) Designation of previously recognized financial instruments:

IFRS: IAS 39 restricts the circumstances in which the option to measure a financial instrument at fair value through profit or loss is available. **Canadian GAAP:** Contains no similar restriction.

Impact on the Company: The Company does not expect a material impact upon transition as the Company believes that its classification of financial instruments under Canadian GAAP has been largely consistent with the principles set out in IAS 39.

D) Mandatorily Applicable Standards with Retrospective Application (i.e., Not Specifically Exempt Under IFRS - 1)

i) Property, plant and equipment - cost

IFRS: IAS 16 contains more extensive guidance with respect to components within property, plant, & equipment. When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). **Canadian GAAP:** Section 3061 essentially contains similar guidance but is less extensive.

***Impact on the Company:** The Company has applied the straight line or declining balance amortization method to all of its assets that are used directly for operations. The Company believes that the “components” approach is primarily intended to apply to major inspection or overhaul cost that is embedded in the cost of an item of property, plant and equipment. The Company has not identified any major inspection or overhaul cost with respect to its property, plant and equipment. Accordingly, the Company does not expect that this will have a material impact upon transition.*

ii) Intellectual property and other Intangible assets – impairment

The Company has significant balances relating to *Intellectual property and other Intangible assets*

IFRS: Under IAS 36 an asset is impaired if the recoverable amount is lower than the asset’s carrying amount. Assets are evaluated either individually or grouped in a cash generating unit (CGU) for impairment-testing purposes. A CGU is the smallest group of assets that generates independent cash inflows and may be smaller than an asset group or a reporting unit under Canadian GAAP. Assets are tested, and any resulting impairment charges are measured using a one-step test that compares an asset or CGU’s carrying value to its recoverable amount. The recoverable amount is the higher of the fair value less cost to sell (a market-based model) and the value in use (an entity-specific discounted cash flow model). Since discounting is factored in when assessing impairment and impairment often is evaluated in smaller ‘asset groups’, entities are more likely to have impairments under IFRS. **Canadian GAAP:** A two-step approach is used to measure impairment. In step 1, a recoverability test is performed by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, step 2 is triggered, and the entity must record an impairment loss calculated as the excess of the asset’s carrying amount over its fair value.

***Impact on the Company:** The discounted present values of the Company’s intellectual property and other intangible assets, as determined under CICA Handbook Section 3861, were in excess of the carrying values as at December 31, 2009. During Phase II the Company will recalculate the recoverable amounts of its Intellectual property and other Intangible assets using the IAS 36 methodology to determine whether an impairment must be recognized at January 1, 2010 and at December 31, 2010 and for the year then ended, if any.*

iii) Impairment provision reversals

During 2008 the Company recorded an impairment loss of approximately \$6.5 million relating to certain technology and other intangible assets.

IFRS: IAS 28 and 36 require reversal of impairment loss for assets other than goodwill if certain criteria are met. **Canadian GAAP:** Reversal of impairment is not permitted.

***Impact on the Company:** During Phase II the Company will determine the amount of previously recognized impairment that may no longer be appropriate and reverse that amount (up to the original cost less depreciation) at date of transition.*

iv) Share based compensation

IFRS: Under IFRS 2, graded vesting awards must be accounted for as though each instalment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize the expense on a straight line basis. **Canadian GAAP:** Straight line basis is permissible under Canadian GAAP.

***Impact on the Company:** The Company has recognized share based compensation expense on a straight line basis and expects to record transitional entries for options unvested at January 1, 2010. The effect of this is expected to be*

an increase to deficit and decrease to contributed surplus. For options granted on or after January 1, 2010 the Company will calculate the aggregate fair value as though each instalment is a separate award and will amortize the value on a graded basis.

v) Revenue recognition

Multiple element arrangements:

The Company's service revenues from software modification, consulting, implementation, training and integration services are accounted for as multiple element arrangements by reference to VSOE of fair value for these services. There is relatively little guidance under IFRS in respect of multiple element arrangements, other than the requirement to consider whether the components of a contract should be accounted for separately or as a single transaction.

Impact on the Company: *The Company believes that its existing policy will be acceptable under IFRS but will re-evaluate the application of the specific criteria under Canadian GAAP to determine whether they give rise to differences for the purpose of transition to IFRS.*

Service arrangements:

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. 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. Under IAS 11 *Revenues* when the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.

Impact on the Company: *The Company believes that its existing policy will be acceptable under IFRS but will re-evaluate the application of the specific criteria under Canadian to determine whether they give rise to differences for the purpose of transition to IFRS.*

vi) Functional currency

Although the Company reports its financial statements in US dollars, the Company uses the Canadian dollar as its functional currency. IAS 21 contains a more comprehensive framework for the determination of functional currency.

Impact on the Company: *In connection with the finalization of the Company's Canadian GAAP financial statements for the year ended December 31, 2009, the Company reviewed the Canadian GAAP criteria for determining an entity's functional currency and reconfirmed that the functional currency is the Canadian dollar for historical periods ending December 31, 2009. During Phase II the Company will review the IAS 21 criteria to determine whether there is an impact upon transition at January 1, 2010 or at December 31, 2010 and for the interim periods and the year then ended. At the present time the Company does not expect a material impact, as the Company expects that its functional currency under both Canadian GAAP and IFRS at January 1, 2010 is the Canadian dollar.*

vii) Change in reporting currency

Effective January 1, 2008 the Company changed its reporting currency from Canadian Dollar to U.S. Dollar.

IFRS: When the presentation currency differs from the entity's functional currency, IAS 21 requires comparative amounts to be translated in a manner consistent to that required for current period amounts. For an entity whose functional currency is not the currency of a hyperinflationary economy, the statement of comprehensive income is translated at exchange rates at the dates of the transactions (the previous year's comparative financial statements are translated at last year's average rate) and the assets and liabilities at the previous year's closing rate. **Canadian GAAP:** "Translation Method When the Reporting Currency Differs from the Measurement Currency or There is a Change in the Reporting Currency," EIC-130, requires that comparative amounts for a previous period be restated. The income statement and the cash flow statement items for each year (or period) are translated into the reporting

currency using the rates in effect at the date of the transactions, and assets and liabilities are translated using the exchange rate in effect at the end of that period.

Impact on the Company: *During Phase II the Company will review the previously reported balances to determine whether any transitional adjustment is required; however, the Company does not expect that there will be any significant transitional impact as the periods affected are fiscal 2007 and prior years. The Company will also apply the methodology described in IAS 21 with respect to its 2010 comparative IFRS financial statements and does not expect a significant difference.*

E) Impact on Systems and Processes

The Company does not expect that adoption of IFRS will have a pervasive impact on its present systems and processes. The Company expects to implement certain minor changes to the general ledger account descriptions as well as the calculation methodologies currently in use for certain specific financial statement areas such as asset impairment, share based compensation. As the accounting policies are selected, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. For example, any changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements.

At this point, the Company has not determined its final accounting policy choices. The certifying officers plan to complete the design, and initially evaluate the effectiveness of, any significant changes to controls in the third quarter of 2010 to prepare for certification under IFRS in 2011.

FINANCIAL INSTRUMENTS AND OTHER 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 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.

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

	December 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
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

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

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and foreign exchange option contracts. The Company limits its exposure to credit risk with respect to cash and cash equivalents by investing available cash, 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:

	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

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.

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.

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.

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number of preference shares without par value. As of March 25, 2010, the Company has 163,259,070 common shares outstanding and no preference shares outstanding.

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 25, 2010, the Company is entitled to grant incentive stock options for 16,325,906 common shares under the Company's stock option plan. Presently, a total of 7,152,825 options are issued and outstanding. Also, 16,197,275 common shares are reserved for issuance pursuant to outstanding warrants.

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 dramatic decline in the global economic environment in 2008 and 2009 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 global economic climate does not recover or the 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 has a history of operating losses 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 may 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 products the Company develops are not successful, the Company's business could be harmed. Even if the Company does develop new products which are accepted by its target markets, the Company cannot assure that the revenue from these products will be sufficient to justify the Company's investment in research and development.

Major Industry Software Vendor Partners May Become Competitors

The Company relies on software developed by several vendors in order to develop and market its products and services. As the developer of Windows Mobile, Windows CE, Microsoft.NET, Android and Symbian-based software technologies, all of which the Company is reliant upon. The vendors of these technologies 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 the vendors 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 losses will not continue in the future. As at December 31 2009, the Company had an accumulated deficit of approximately \$103.6 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 three and twelve month period ended December 31, 2009, approximately 49% and 38% 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 Business Operations

The Company continues to operate internationally. 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 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, smart phones, 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, United States, Taiwan and China, the Company is exposed to risks associated with fluctuations in the exchange rate between the U.S. dollar, Chinese Renminbi, New Taiwan dollar and Canadian dollar. If the Canadian dollar, New Taiwan dollar 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.

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 no instances in which internal controls did not operate in an effective manner. Nonetheless, 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 three and twelve-month period ended December 31, 2009 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, supervisory controls are exercised by management and the Audit Committee is vigilant in its oversight.

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, 2009, 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.