



**INTRINSYC SOFTWARE INTERNATIONAL, INC.**

**QUARTERLY REPORT**

**Second Quarter Fiscal 2009**

**For the three and six months ended June 30, 2009**

## Chief Executive Officer Letter

I am pleased to report that our effort to instill financial discipline and improve operating efficiency through streamlined operations paid off in the quarter with the achievement of positive EBITDA.

We are nearing completion of our streamlining of operations and beginning the next phase of our plan which will be focused on expanding our solution offering, winning new customers, and growing revenues. We will maintain our discipline and focus on operating profitability and cash preservation and will make adjustments as required to achieve our goals.

Although the negative economic environment persisted throughout the quarter, we were able to grow revenue by 11% over the prior quarter ended March 31, 2009. This growth was attributed to significant revenue from our Android-based project for a Fortune 500 company, and initial revenue from our agreement to supply Navigation and Location Based Services to LG Electronics. Revenue was down by 12% compared to the second quarter of the prior year due to the substantial decline in our Symbian-related engineering services. While we do not anticipate significant resurrection of our Symbian-related engineering services, we plan to offset in whole or part the loss of revenue through growth in Google Android and Microsoft Windows projects.

Our overall gross margin increased to 56% from 47% compared to the performance in the second quarter of 2008. This improvement in gross margin by 9% is attributable to the addition of Destinator<sup>®</sup> software sales that were not part of our solution offering in the second quarter of 2008.

During the quarter, we launched a major enhancement of our Navigation and LBS software with the introduction of Destinator version 9, ToBe Gateway Server, and NavStore products. These products provide a comprehensive solution for delivery of market leading navigation and location based services. The newest version of the Destinator client software offers the industry's best navigation experience. Users can now find information faster with fewer clicks thanks to innovative new features like the NavStrip<sup>™</sup> interface, Sticky POI, online search, and gesture recognition. Our latest navigation solutions are attracting interest from several potential customers.

Our expertise in the Google Android operating system was enhanced by the introduction of RapidRIL<sup>™</sup>. RapidRIL is the industry's only commercial-grade, open market solution for developing radio interface layer (RIL) software for Android mobile phones and connected devices. RapidRIL allows device makers to create a RIL in weeks rather than months. This provides substantial cost savings and time to market advantage. RapidRIL provides the ability to support multiple control and data channels and SIM devices. We are in discussions with several leading OEMs and ODMs to license this product and expect to have further announcements regarding this product in the current quarter.

Leveraging concepts and IP from the Soleus<sup>®</sup> software platform, we also launched UX-Zone<sup>™</sup> during the second quarter. UX-Zone enables the appearance of a phone interface to change automatically when entering the range of different wireless technologies such as WiFi, femtocells, or WIMAX. It adapts as the user roams from one network provider to another. UX-Zone changes the phone's theme and displays relevant applications for the location and the services available, or even an event. These capabilities offer numerous benefits to OEMS, mobile operators, and end users, including location-based advertising, efficient network loading, and assurance to the consumer of using the most cost effective available network.

Recent News from Second Quarter, 2009, included:

- Launched Destinator 9, the newest version of Destinator that offers the industry's best navigation experience with fewest clicks;

- Announced an extension to the agreement with a Fortune 500 company for Android device development;
- The opening of an Android Development Center in Beijing, China to support Android handset makers;
- The launch of UX Zone, the wireless industry's first solution for Android that automatically detects femtocells and displays relevant applications and services at the end user's fingertips;
- The announcement of the integration of BLOM 3D PhotoNav Technology into the Destinator routing engine to cover more than 1000 cities in Europe.

We successfully executed our operational restructuring plan begun in the fourth quarter of 2008, and achieved our goal of business stabilization. To put this achievement in perspective, the last quarter with positive EBITDA performance on a quarterly basis was during the fourth quarter of 2002. We are quite pleased with this achievement, but we realize we have much left to accomplish.

While we are optimistic about our long-term future, we are not providing guidance on future performance as there remains significant uncertainty in the global economic recovery. We will have additional announcements in the coming months regarding the enhancement and broadening of our solution offering for mobile device development. These new solutions will help OEMs bring devices to market with higher, quality, differentiating innovation, and faster time to market.

Yours sincerely,

A handwritten signature in black ink that reads "Tracy Rees". The signature is written in a cursive, flowing style.

Tracy Rees  
President and Chief Executive Officer  
August 13, 2009

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

For the Three and Six Months Ended June 30, 2009

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**INTRINSYC SOFTWARE INTERNATIONAL, INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six months ended  
June 30, 2009 and 2008  
*(Unaudited and expressed in US dollars)*

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Consolidated Balance Sheets

(Unaudited and expressed in U.S. dollars)

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

As at	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$10,604,074	\$12,391,452
Restricted cash (notes 3 and 12(e))	118,712	207,755
Accounts receivable (notes 4 and 13)	4,335,457	6,083,190
Inventory	-	14,649
Prepaid expenses - current	284,553	523,916
Total current assets	15,342,796	19,220,962
Restricted cash (note 3)	85,984	-
Prepaid expenses	43,342	18,998
Equipment (notes 6 and 13)	868,126	1,567,464
Intangible assets (note 5)	3,843,086	4,034,000
Total assets	\$20,183,334	\$24,841,424
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$4,577,686	\$7,727,497
Capital lease obligation - current	40,026	82,911
Deferred revenue	789,281	754,301
Total current liabilities	5,406,993	8,564,709
Long-term capital lease obligation	21,038	39,483
Total liabilities	5,428,031	8,604,192
Shareholders' equity		
Share capital (note 10)	108,288,133	108,288,133
Warrants and underwriters' options (note 10)	4,047,763	4,489,508
Contributed surplus (note 11)	4,895,749	4,260,625
Accumulated other comprehensive income (loss) (note 7)	498,424	(159,400)
Deficit	(102,974,766)	(100,641,634)
Total shareholders' equity	14,755,303	16,237,232
Total liabilities and shareholders' equity	\$20,183,334	\$24,841,424

Commitments and contingencies (note 12)

See accompanying notes to unaudited interim consolidated financial statements

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Consolidated Statements of Operations and Deficit

(Unaudited and expressed in U.S. dollars)

For the	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenues <i>(note 13)</i>	\$4,874,621	\$5,566,017	\$9,275,428	\$11,121,551
Cost of sales	2,144,748	2,956,178	4,425,363	5,975,526
	2,729,873	2,609,839	4,850,065	5,146,025
Expenses				
Sales and marketing	744,602	1,822,475	1,888,517	3,650,850
Research and development <i>(note 8(b))</i>	1,140,993	2,694,824	2,504,082	5,241,471
Administration	534,036	1,794,631	1,337,626	3,615,608
Amortization <i>(notes 5 &amp; 6)</i>	339,417	210,896	658,746	422,704
Stock-based compensation <i>(note 11)</i>	108,871	283,367	193,379	567,626
Technology Partnerships Canada Funding Investment <i>(note 8(a))</i>	143,135	158,682	278,069	182,101
Loss on disposal of equipment <i>(note 6)</i>	199,793	-	220,345	-
	3,210,847	6,964,875	7,080,764	13,680,360
Loss before other expense (earnings) and income taxes	480,974	4,355,036	2,230,699	8,534,335
Other expense (earnings)				
Foreign exchange loss (gain)	310,261	52,604	197,078	(161,889)
Interest expense (income)	3,898	(254,420)	(33,931)	(426,365)
Loss before income taxes	795,133	4,153,220	2,393,846	7,946,081
Income tax expense (recovery)				
Current	(86,463)	110,817	(60,714)	178,392
Future	-	(12,852)	-	(36,407)
	(86,463)	97,965	(60,714)	141,985
Net loss for the period	708,670	4,251,185	2,333,132	8,088,066
Deficit, beginning of period	102,266,096	65,618,633	100,641,634	61,781,752
Deficit, end of period	102,974,766	69,869,818	102,974,766	69,869,818
Loss per share (basic and diluted)	\$0.01	\$0.03	\$0.02	\$0.06
Weighted average number of shares outstanding	163,254,903	151,002,445	163,254,903	141,273,052

*See accompanying notes to unaudited interim consolidated financial statements*

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Consolidated Statements of Comprehensive Loss

(Unaudited and expressed in U.S. dollars)

<b>For the</b>	<b>Three months ended June 30, 2009</b>	<b>Three months ended June 30, 2008</b>	<b>Six months ended June 30, 2009</b>	<b>Six months ended June 30, 2008</b>
Net loss for the period	(\$708,670)	(\$4,251,185)	(\$2,333,132)	(\$8,088,066)
Other comprehensive gain (loss):				
Unrealized gains (losses) on translating financial statements from functional currency to reporting currency	1,194,857	389,183	657,824	(1,433,793)
<b>Comprehensive income (loss)</b>	<b>\$486,187</b>	<b>(\$3,862,002)</b>	<b>(\$1,675,308)</b>	<b>(\$9,521,859)</b>

*See accompanying notes to unaudited interim consolidated financial statements*

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Consolidated Statements of Cash Flows

(Unaudited and expressed in U.S. dollars)

For the	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(\$708,670)	(\$4,251,185)	(\$2,333,132)	(\$8,088,066)
Items not involving cash:				
Amortization	339,417	210,896	658,746	422,704
Future income taxes	(41,694)	(13,351)	(2,603)	(34,305)
Stock-based compensation (note 11)	108,871	283,367	193,379	567,626
Loss on disposal of equipment	199,793	-	220,345	-
Changes in non-cash operating working capital:				
Accounts receivable	593,489	972,849	1,939,018	(1,058,705)
Inventory	-	52,034	14,336	102,443
Prepaid expenses	48,000	(707,881)	227,909	(614,872)
Accounts payable and accrued liabilities	(1,457,154)	1,261,775	(3,116,015)	1,466,765
Deferred revenue	(115,051)	(46,037)	(7,828)	81,012
Cash used in operating activities	(1,032,999)	(2,237,533)	(2,205,845)	(7,155,398)
<b>INVESTING ACTIVITIES</b>				
Purchase of equipment	(3,075)	(312,248)	(25,941)	(558,696)
Loan receivable	-	(1,998,562)	-	(1,998,562)
Deferred acquisition costs	-	(1,021,461)	-	(1,448,983)
Cash used in investing activities	(3,075)	(3,332,271)	(25,941)	(4,006,241)
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares and warrants (note 10)	-	53,957	-	32,173,707
Share issuance costs (note 10)	-	-	-	(2,186,676)
Repayment of capital lease obligation	(9,596)	(12,437)	(63,318)	(16,260)
Restricted cash	1,035	-	12,104	-
Cash provided by (used in) financing activities	(8,561)	41,520	(51,214)	29,970,771
Effect of exchange rate changes on cash and cash equivalents	904,620	287,105	495,622	(957,110)
Increase (decrease) in cash and cash equivalents	(140,015)	(5,241,179)	(1,787,378)	17,852,022
Cash and cash equivalents, beginning of period	10,744,089	35,246,802	12,391,452	12,153,601
Cash and cash equivalents, end of period	\$10,604,074	\$30,005,623	\$10,604,074	\$30,005,623
<b>Supplementary information</b>				
Assets acquired under capital leases	-	\$66,055	-	\$66,055
Interest received	\$3,162	-	\$21,023	-
Income taxes paid	-	\$29,741	-	\$281,510

*See accompanying notes to unaudited interim consolidated financial statements*

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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### 1. ORGANIZATION AND BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited interim consolidated financial statements include the accounts of Intrinsic Software International, Inc. (the “Company”) and its wholly-owned subsidiaries, Intrinsic Software (USA) Inc., Linar Limited, Intrinsic Europe Limited, NMI Electronics Limited, Intrinsic Software (Barbados), Inc., Intrinsic Software (Israel) Ltd. and Intrinsic Software (Beijing), Inc. The Company has eliminated all significant intercompany balances and transactions. These unaudited interim consolidated financial statements are stated in United States dollars (U.S.) and have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) for interim financial information, on the basis that the Company is a going concern which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations applied on a basis consistent with the audited consolidated financial statements as at and for the year ended December 31, 2008, except as noted below. The unaudited interim consolidated financial statements do not include all information and footnote disclosures required for a set of annual financial statements under Canadian GAAP. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2008 as filed on SEDAR on March 12, 2009.

The preparation of these unaudited interim consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for all periods presented, have been included. Interim results as at and for the three and six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year or for any other period.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

The Company applied the same accounting policies in the preparation of the unaudited interim consolidated financial statements as disclosed in its audited consolidated financial statements as at and for the year ended December 31, 2008 which include the following:

#### a) Principles of consolidation

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

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**b) Use of estimates**

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

**c) Cash equivalents**

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

**d) Inventory**

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

**e) Allowance for doubtful accounts**

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

**f) Research and development**

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

**g) Equipment**

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

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

Leasehold improvements are amortized on a straight-line basis over the shorter of the initial lease term or their expected useful lives. Furniture and fixtures include such items under capital lease.

**h) Leases**

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

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

All other leases are accounted for as operating leases wherein rental payments are charged to expense as incurred.

#### i) Intellectual property and other intangible assets

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

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

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

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

#### j) Revenue recognition

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

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

The Company recognizes revenue from the sale of software licenses upon the transfer of title to the customer, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. The Company uses the residual method to recognize revenue on delivered elements when a license agreement includes one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements exists. If an undelivered element for the arrangement exists under the license arrangement, revenue related to the undelivered element is deferred based

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

on VSOE of the fair value of the undelivered element. If VSOE of fair value does not exist for all undelivered elements, all revenue is deferred until sufficient evidence exists or as elements are delivered.

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

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

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

#### k) **Unbilled revenue**

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

#### l) **Derivative financial instruments**

Derivative financial instruments may be utilized by the Company in the management of its foreign currency exposure to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions. Currently, the Company has not utilized any derivative financial instruments.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. Derivatives that are not subject to hedge accounting are recorded on the consolidated balance sheet with the changes in fair value being recorded in the consolidated statement of operations each period.

#### m) **Warranty costs**

The Company accrues warranty costs based on management's best estimate, with reference to past experience.

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**n) Share issue costs**

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

**o) Stock-based compensation plan**

The Company has a stock-based compensation plan, which is described in note 10. The Company accounts for all stock-based payments granted to employees and non-employees using the fair value based method as per the amendment by the CICA Accounting Standards Boards to the CICA Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*" which requires entities to account for employee stock options using the fair value based method. The expense is charged to operations as stock-based compensation with a corresponding credit to contributed surplus. Consideration paid by employees on the exercise of stock options is recorded as share capital.

**p) Impairment of equipment**

The Company monitors the recoverability of equipment, based on factors such as future utilization, business climate and the future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when the Company determines that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to the undiscounted future cash flows. As at June 30, 2009, the Company has not recorded any such impairment losses.

**q) Translation of foreign currencies**

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

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

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

**r) Loss per share**

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

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### s) Income taxes

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

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

#### Changes in Accounting Policies

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

##### **HB Section 3064 - Goodwill and Intangible Assets**

Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and other Intangible Assets", and Section 3450, "Research and Development Costs". The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Management has determined that there is no impact in adopting this standard.

#### Future Accounting Changes

##### **HB Section 1582 - Business Combinations**

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

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

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, the new CICA Handbooks Section 1601 and Section 1602 will replace Section 1600 "Consolidated Financial Statements". These sections establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements 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.

##### **Accounting Standards**

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. These companies will be required to provide IFRS comparative information

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter in the fiscal year ending December 31, 2011 with comparative information also prepared under IFRS.

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

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

### 3. RESTRICTED CASH

As part of settlement the Company had with one of its vendors, the Company agreed to pay CDN \$600,000 cash as well as paying CDN \$200,000 of the account by issuing the vendor 1,250,000 common shares at a price of CDN \$0.16 for a total payment of CDN \$800,000. The shares were issued on November 27, 2008. The shares were subject to a 4-month hold period from date of issue and will require orderly liquidation of the shares on a basis restricted to 25% of the total volume issued being sold during any 6-month period unless previously approved by the Company. Intrinsic will guarantee that a minimum of CDN \$100,000 is received from the sale of shares. As such, the Company placed CDN \$100,000 in trust which will be released to the Company upon liquidation of such shares. In the event that the total proceeds from disposition are lower than CDN \$100,000, such dispositions will be offset by payment from such funds held in trust.

The Company has also put aside funds pertaining to a lease agreement in Israel (see Note 12 – Commitments and Contingencies).

### 4. ACCOUNTS RECEIVABLE

	June 30, 2009	December 31, 2008
Trade and miscellaneous receivables	\$ 3,976,528	\$ 5,998,881
Less: Allowance for doubtful accounts	(461,102)	(440,562)
Unbilled revenue	820,031	524,871
	<b>\$ 4,335,457</b>	<b>\$ 6,083,190</b>

### 5. ACQUISITION OF SELECTED ASSETS OF DESTINATOR

On July 9, 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. The total consideration paid, excluding transaction costs, consisted of \$6.8 million in cash consideration and 11 million common shares of Intrinsic valued at \$0.502 per share, for a total value of \$5.5 million.

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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

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

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

#### Net Assets Acquired

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

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

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

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

The Company reviewed the technology and related intangible assets acquired from Destinator and their future cash flow projections and recorded an impairment charge of \$6,521,429 during the year ended December 31, 2008. The impairment charge is equal to the amount by which the asset's carrying amount exceeded the net present value of the assets' estimated discounted future cash flows. The Company reviewed the technology and related intangible assets acquired from Destinator and their future cash flow projections and identified no impairment as at June 30, 2009.

Total amortization of intangible assets for the three months ended June 30, 2009 and 2008 was \$190,206 and \$56,279, respectively. Total amortization of intangible assets for the six months ended June 30, 2009 and 2008 was \$368,538 and \$134,794, respectively.

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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

The following table presents details of movement in the carrying value of the intangible assets acquired as at June 30, 2009:

	Amount
<b>Balance, July 9, 2008</b>	<b>\$ 13,698,000</b>
Amortization	(1,002,086)
Impairment charge	(6,521,429)
Foreign exchange due to weakening of Canadian dollar	(2,140,485)
<b>Balance, December 31, 2008</b>	<b>\$ 4,034,000</b>
Amortization	(368,538)
Foreign exchange due to strengthening of Canadian dollar	177,624
<b>Balance, June 30, 2009</b>	<b>\$ 3,843,086</b>

The estimated future amortization expense as of June 30, 2009 of the purchased identifiable intangible assets is as follows:

#### **Amortization of Acquired Intangible Assets**

Remainder of 2009	381,688
2010	763,376
2011	763,376
2012	755,582
2013	744,671
2014	434,393
	<b>\$ 3,843,086</b>

### 6. EQUIPMENT

	Cost	Accumulated amortization	Net book value
<b>June 30, 2009</b>			
Computers and equipment	\$ 1,908,833	\$ 1,433,510	\$ 475,323
Computer software	936,971	863,910	73,061
Furniture and fixtures	933,805	671,964	261,841
Leasehold improvements	438,045	380,144	57,901
	<b>\$ 4,217,654</b>	<b>\$ 3,349,528</b>	<b>\$ 868,126</b>

	Cost	Accumulated amortization	Net book value
<b>December 31, 2008</b>			
Computers and equipment	\$ 2,618,647	\$ 1,900,126	\$ 718,521
Computer software	1,252,429	1,082,515	169,914
Furniture and fixtures	1,211,043	773,649	437,394
Leasehold improvements	649,593	407,958	241,635
	<b>\$ 5,731,712</b>	<b>\$ 4,164,248</b>	<b>\$ 1,567,464</b>

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 6. EQUIPMENT (cont'd)

Total amortization for the three months ended June 30, 2009 and 2008 was \$149,211 and \$154,617, respectively. Total amortization for the six months ended June 30, 2009 and 2008 was \$290,208 and \$287,910, respectively. During the three months ended June 30, 2009, the Company recorded a loss on disposal of equipment of \$199,793 which relates to disposed computers and equipment, office furniture and leasehold improvements from three office closures as the Company moved into smaller office facilities in the United States, Israel and Taiwan.

### 7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	June 30, 2009	December 31, 2008
Balance – beginning of period	(\$ 159,400)	\$ 9,222,949
Unrealized foreign currency translation gains (losses)	657,824	(9,382,349)
Balance – end of period	\$ 498,424	(\$ 159,400)

### 8. GOVERNMENT ASSISTANCE

#### a) Technology Partnerships Canada (“TPC”)

Under agreements with the Government of Canada’s Technology Partnerships Canada (“TPC”) program, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of 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 \$1,452,396 to TPC in royalties.

During the year ended August 31, 2005, the Company determined that it had received an overpayment from TPC of CDN \$22,063 and accordingly recorded a liability for this amount. The Company is currently a party to communications/negotiations with TPC with respect to issues raised by TPC regarding funds received by the Company in prior years (See Note 12 – Commitments and Contingencies).

#### b) Industrial Research Assistance Program (“IRAP”)

Effective June 15, 2009, the Company entered into an agreement with the National Research Council Canada (“NRC”) under its’ Industrial Research Assistance Program (“IRAP”). Under this agreement, the NRC will reimburse the Company 75% of eligible supported salary costs up to a maximum of CDN \$132,000 to assist in the further development of its’ telephony software application until March 31, 2010. Any funding received will be recorded as a reduction of the related expense presented under “Research and development.” As of June 30, 2009, the Company has not received any funding nor recorded any reduction to “Research and development.”

### 9. EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Benefit costs	\$ -	\$ 222,597	\$ -	\$ 400,122

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 9. EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS (cont'd)

The Company matched employees' retirement savings contributions to registered pension plans as part of the employee benefits plan. The funds were transferred to the individual employees' retirement savings plans on a periodic basis. The expense was accrued throughout the year. This employer benefit was cancelled during the three-month period ended March 31, 2009.

### 10. SHARE CAPITAL, WARRANTS AND OPTIONS

#### Authorized

Unlimited number of common shares without par value; and

Unlimited number of preference shares without par value.

#### Issued

	Number of common shares	Amount
<b>Outstanding, December 31, 2008</b>	<b>163,254,903</b>	<b>\$ 108,288,133</b>
No transactions during the quarter	-	-
<b>Outstanding, March 31, 2009</b>	<b>163,254,903</b>	<b>\$ 108,288,133</b>
No transactions during the quarter	-	-
<b>Outstanding, June 30, 2009</b>	<b>163,254,903</b>	<b>\$ 108,288,133</b>

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

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

#### Share option plan

The Company has a rolling incentive stock option plan. Under the terms of the Company's stock option plan, the Board of Directors may grant options to directors, officers, employees and service providers equal to the lower of:

(i) up to 10% of issued and outstanding common shares of the Company from time to time less one share; and, (ii) 30,000,000 shares. The plan provides for the granting of options at the closing price of the Company's stock on the day prior to the grant date. Options granted generally vest over three years with the first one-third vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five-year term. As of June 30, 2009 the number of options available for grant under the plan was 16,325,489.

A summary of the Company's share option activity for the six months ended June 30, 2009 is as follows:

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 10. SHARE CAPITAL, WARRANTS AND OPTIONS (cont'd.)

	Outstanding options	
	Number of common shares	Weighted average exercise price (in Canadian dollars)
<b>Outstanding, December 31, 2008</b>	<b>6,739,133</b>	<b>\$ 0.70</b>
Options granted	4,492,500	0.07
Options exercised	-	-
Options cancelled	(2,295,830)	0.65
<b>Outstanding, June 30, 2009</b>	<b>8,935,803</b>	<b>\$ 0.40</b>

The following table summarizes the share options outstanding at June 30, 2009:

Options outstanding			Options exercisable		
Range of exercise price (in Canadian dollars)	# of common shares	Weighted average remaining contractual life	Weighted average exercise price (in Canadian dollars)	# of options exercisable	Weighted average exercise price (in Canadian dollars)
\$ 0.06 – \$ 0.74	6,734,201	4.00	\$ 0.23	1,620,915	\$ 0.53
\$ 0.75 – \$ 0.90	1,064,352	2.54	\$ 0.79	798,385	\$ 0.80
\$ 0.91 – \$ 1.32	1,137,250	2.94	\$ 1.02	837,250	\$ 1.06
	<b>8,935,803</b>	<b>3.69</b>	<b>\$ 0.40</b>	<b>3,256,550</b>	<b>\$ 0.73</b>

The weighted average fair value of stock options granted during the three and six months ended June 30, 2009 was CDN \$0.10 and CDN \$0.06 per share (CDN \$0.44 and CDN \$0.31 per share for the three and six months ended June 30, 2008). The fair value of each option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Expected life (in years)	4.0	4.0	4.0	4.0
Risk-free interest rate	2.16%	3.16%	1.91%	2.92%
Volatility	132.26%	85.70%	126.23%	85.60%
Dividend yield	0.00%	0.00%	0.00%	0.00%

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 10. SHARE CAPITAL, WARRANTS AND OPTIONS (cont'd.)

#### Warrants & underwriters' compensation options

	Outstanding warrants and underwriters' compensation options		
	# of warrants and underwriters' compensation options	Weighted average exercise price (in Canadian dollars)	Amount
<b>Outstanding, December 31, 2008</b>	<b>18,016,570</b>	<b>\$ 0.95</b>	<b>\$ 4,489,508</b>
No transactions during the quarter ended March 31, 2009	-	-	-
<b>Outstanding, March 31, 2009</b>	<b>18,016,570</b>	<b>\$ 0.95</b>	<b>\$ 4,489,508</b>
Expiration of compensation options issued May 10, 2007	(1,666,700)	0.60	(391,280)
Expiration of compensation options issued June 7, 2007	(152,595)	0.60	(50,465)
<b>Outstanding, June 30, 2009</b>	<b>16,197,275</b>	<b>\$ 0.99</b>	<b>\$ 4,047,763</b>

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

	# of warrants and underwriters' compensation options	Exercise price (in Canadian dollars)	Expiry date
Warrants issued October 3, 2005	2,284,968	\$ 0.62	October 3, 2010
Warrants issued March 30, 2006	13,398,201	\$ 1.05	March 29, 2010
Compensation warrants issued in connection with March 30, 2006 financing	514,106	\$ 1.05	March 30, 2010
<b>Outstanding, June 30, 2009</b>	<b>16,197,275</b>		

### 11. CONTRIBUTED SURPLUS

	June 30, 2009	December 31, 2008
<b>Balance – beginning of period</b>	<b>\$ 4,260,625</b>	<b>\$ 3,152,145</b>
Transfer to common share capital of issue date fair value for options exercised	-	(122,648)
Transfer from warrants and underwriters' compensation options for expired compensation options (note 10)	441,745	169,367
Stock-based compensation expense	193,379	1,061,761
<b>Balance – end of period</b>	<b>\$ 4,895,749</b>	<b>\$ 4,260,625</b>

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 12. COMMITMENTS AND CONTINGENCIES

- a) The Company has lease commitments for office premises and until 2015. The aggregate of minimum lease payments as at June 30, 2009 for the remainder of 2009 and in each of the next six years are approximately as follows:

Remainder of 2009	\$ 624,445
2010	322,046
2011	308,567
2012	301,891
2013	301,891
2014	301,891
2015	276,733
	<hr/>
	<b>\$ 2,437,464</b>

- b) The Company has a commitment to pay a royalty of \$15 per \$100 of licenses sold of certain software licenses. In the event the cumulative royalty is less than \$150,000, the Company was required to pay the difference between the cumulative amount paid and the \$150,000 on November 30, 2008. The Company had accrued the remaining balance as at December 31, 2007 as management determined that future sales under this agreement were unlikely. No payment had been made prior to June 30, 2009.
- c) The Company has received correspondence from the Industrial Technology Office (“ITO” formerly “TPC”) indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and that an invoice will be issued to the Company for approximately CDN \$929,183 in addition to the already recorded CDN \$22,063 (see Note 8(a) – Technology Partnerships Canada).

The Company evaluated the correspondence and the original contribution agreement, and had engaged in a dialogue with the ITO in order to arrive at a final determination of eligibility of these costs under the program. The Company continues to believe the costs are eligible under the program and has determined it will continue to vigorously defend its position with the ITO. The ITO has not issued an invoice to the Company to date. At this time, the Company is unable to assess the likelihood of repayment of the requested amounts or arrive at an estimate for the quantum of any possible future repayments. Any amount the Company pays the ITO in excess of the accrued CDN \$22,063 will result in an additional loss that would be recorded in the period of the determination that the amount is owed.

- d) The Company warrants that its software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally thirty days. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.
- e) The Company collateralized its current lease agreement for its facilities in Israel by restricting cash in one of its Israeli bank accounts rather than deposit. The amount currently in this account is approximately \$118,000. As such, this amount has been recorded as restricted cash. In July 2009, this amount was paid to the landlord as part of the settlement of its facility obligations in Israel.
- f) As part of the restructuring initiatives undertaken in fiscal 2008, the Company provided a guarantee regarding an exited facility lease on behalf of a third party tenant. In the event that such tenant forfeits on any lease payment obligations until the expiration of the lease term on November 30, 2010, the Company would be responsible for any current and future lease payments, up to a maximum amount of approximately CDN \$200,817 (which equals remaining lease payments and has not been accrued) as at June 30, 2009. The new tenant has entered into a lease agreement and has been making payments for this lease facility.

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 12. COMMITMENTS AND CONTINGENCIES (cont'd)

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

### 13. SEGMENTED INFORMATION

#### Operating segments

The Company operates in three segments:

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

A breakdown of revenues, cost of sales and operating expenses for each reportable segment for the three and six months ended June 30, 2009 and June 30, 2008 is as follows:

<b>Three months ended June 30, 2009</b>	<b>Software Solutions</b>	<b>Solutions Engineering</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 2,100,066	\$ 2,408,468	\$ 366,087	\$ 4,874,621
Cost of sales	212,330	1,737,961	194,457	2,144,748
Gross margin	1,887,736	670,507	171,630	2,729,873
Operating expenses	1,140,993	-	2,069,854	3,210,847
<b>Operating profit (loss)</b>	<b>\$ 746,743</b>	<b>\$ 670,507</b>	<b>(\$ 1,898,224)</b>	<b>(\$ 480,974)</b>

<b>Three months ended June 30, 2008</b>	<b>Software Solutions</b>	<b>Solutions Engineering</b>	<b>Other</b>	<b>Total</b>
Revenue	\$ 1,270,567	\$ 3,989,671	\$ 305,779	\$ 5,566,017
Cost of sales	519,753	2,020,134	416,291	2,956,178
Gross margin	750,814	1,969,537	(110,512)	2,609,839
Operating expenses	2,694,824	-	4,270,051	6,964,875
<b>Operating profit (loss)</b>	<b>(\$ 1,944,010)</b>	<b>\$ 1,969,537</b>	<b>(\$ 4,380,563)</b>	<b>(\$ 4,355,036)</b>

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 13. SEGMENTED INFORMATION (cont'd)

Six months ended June 30, 2009	Software Solutions	Solutions Engineering	Other	Total
Revenue	\$ 3,836,483	\$ 4,787,422	\$ 651,523	\$ 9,275,428
Cost of sales	394,163	3,682,391	348,809	4,425,363
Gross margin	3,442,320	1,105,031	302,714	4,850,065
Operating expenses	2,504,082	-	4,576,682	7,080,764
<b>Operating profit (loss)</b>	<b>\$ 938,238</b>	<b>\$ 1,105,031</b>	<b>(\$ 4,273,968)</b>	<b>(\$ 2,230,699)</b>

Six months ended June 30, 2008	Software Solutions	Solutions Engineering	Other	Total
Revenue	\$ 2,248,081	\$ 8,008,317	\$ 865,153	\$ 11,121,551
Cost of sales	1,018,513	4,473,534	483,479	5,975,526
Gross margin	1,229,568	3,534,783	381,674	5,146,025
Operating expenses	5,241,471	-	8,438,889	13,680,360
<b>Operating profit (loss)</b>	<b>(\$ 4,011,903)</b>	<b>\$ 3,534,783</b>	<b>(\$ 8,057,215)</b>	<b>(\$ 8,534,335)</b>

### Geographic information

The Company's equipment is located as follows:

	June 30, 2009	%	December 31, 2008	%
United States	\$ -	-%	\$ 64,557	4%
Canada	635,790	73%	741,673	47%
Asia	232,336	27%	761,234	49%
	<b>\$ 868,126</b>	<b>100%</b>	<b>\$ 1,567,464</b>	<b>100%</b>

All of the Company's intangible assets are maintained in its Canadian entity.

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

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 13. SEGMENTED INFORMATION (cont'd)

	Three months ended June 30, 2009	%	Three months ended June 30, 2008	%	Six months ended June 30, 2009	%	Six months ended June 30, 2008	%
United States	\$3,097,084	64%	\$1,927,009	35%	\$5,354,091	58%	\$4,024,722	36%
Canada	66,680	1%	140,239	3%	98,816	1%	334,554	3%
Europe	781,529	16%	2,748,617	49%	2,177,506	23%	5,438,765	49%
Asia	747,978	15%	415,071	7%	1,124,484	12%	957,647	9%
Other	181,350	4%	335,081	6%	520,531	6%	365,863	3%
	<b>\$4,874,621</b>	<b>100%</b>	<b>\$5,566,017</b>	<b>100%</b>	<b>\$9,275,428</b>	<b>100%</b>	<b>\$11,121,551</b>	<b>100%</b>

### Significant customers

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

	% of Sales				% of Accounts Receivable
	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008	June 30, 2009
Customer 1	25%	47%	18%	45%	23%
Customer 2	12%	13%	13%	16%	-
Customer 3	10%	3%	11%	2%	14%
<b>Total</b>	<b>47%</b>	<b>63%</b>	<b>42%</b>	<b>63%</b>	<b>37%</b>

### 14. RESTRUCTURING

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

The following table summarizes the expenses recorded by the Company as at June 30, 2009:

	Employee Related Costs	Office Related Costs	Total
Charges	\$ 739,668	\$ 75,000	\$ 814,668
Settlements	678,092	75,000	753,092
<b>Balance at December 31, 2008</b>	<b>\$ 61,576</b>	<b>\$ -</b>	<b>\$ 61,576</b>
Settlements	61,576	-	61,576
<b>Balance at June 30, 2009</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 14. RESTRUCTURING (cont'd)

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

The following table summarizes the expenses recorded by the Company as at June 30, 2009:

	<b>Employee Related Costs</b>	<b>Loss on Disposal of Equipment</b>	<b>Office Related Costs</b>	<b>Other Costs</b>	<b>Total</b>
Charges	\$ 1,318,428	\$ 430,615	\$ 905,676	\$ 357,228	\$ 3,011,947
Settlements/adjustment	935,573	417,425	(41,763)	357,228	1,668,463
<b>Balance at December 31, 2008</b>	<b>\$ 382,855</b>	<b>\$ 13,190</b>	<b>\$ 947,439</b>	<b>\$ -</b>	<b>\$ 1,343,484</b>
Settlements	382,855	13,190	722,439	-	1,118,484
<b>Balance at June 30, 2009</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 225,000</b>	<b>\$ -</b>	<b>\$ 225,000</b>

The balance as at June 30, 2009 is attributable to future lease commitments which are redundant due to the Company's restructuring initiatives and are included as future financial commitments (see Note 12 – Commitments and Contingencies). There was no further restructuring charges during the six months ended June 30, 2009.

### 15. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

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

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

### 16. FINANCIAL INSTRUMENTS

#### a) Financial assets and liabilities

Financial assets are cash and cash equivalents and accounts receivable. Financial liabilities include accounts payable and accrued liabilities.

The Company has classified cash and cash equivalents 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 are classified as other liabilities, measured at amortized cost. The carrying value of the Company's financial assets and liabilities is considered to be reasonable of the fair value due to the short-term nature of these instruments.

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

### 16. FINANCIAL INSTRUMENTS (cont'd)

The carry values and fair values of financial assets and liabilities as at June 30, 2009 and December 31, 2008 are summarized as follows:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading	\$ 10,604,074	\$ 10,604,074	\$ 12,391,452	\$ 12,391,452
Loans and receivables	\$ 4,335,457	\$ 4,335,457	\$ 6,083,190	\$ 6,083,190
Other liabilities	\$ 4,577,686	\$ 4,577,686	\$ 7,727,497	\$ 7,727,497

#### b) Fair Value Disclosure

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

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

#### c) Risk Management

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

##### i) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and accounts receivable. The Company limits its exposure to credit risk with respect to cash 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 June 30, 2009 and December 31, 2008 the Company's exposure to credit risk for these financial instruments was as follows:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Cash and cash equivalents	\$ 10,604,074	\$ 12,391,452
Accounts receivable	4,335,457	6,083,190
	<u>\$ 14,939,531</u>	<u>\$ 18,474,642</u>

# INTRINSYC SOFTWARE INTERNATIONAL, INC.

## Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

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### 16. FINANCIAL INSTRUMENTS (cont'd.)

#### ii) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within one month.

#### iii) Foreign Currency Risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding indebtedness denominated in Canadian dollars as well as a number of foreign currencies. The Company incurs certain research and development expenses in the United States. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. A 10% change in the U.S. to Canadian dollar exchange rate on the June 30, 2009 balances would have an approximate \$483,000 impact on net income. The Company may purchase foreign exchange forward contracts to hedge sales to customers and expenditures expected to occur in the near future in U.S. dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at June 30, 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 \$1.5 million to other comprehensive income.

#### iv) Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily interest earned on its cash. The Company has performed sensitivity analysis on interest rate risk at June 30, 2009 to determine how a change in interest rates would impact equity and net earnings. During the three months ended June 30, 2009, the Company earned \$3,162 of interest income on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the quarter would have increased or decreased equity and net earnings by approximately \$107,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

### 17. SUBSEQUENT EVENT

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. To date, no premiums are outstanding.

### 18. COMPARATIVE FIGURES

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

# **INTRINSYC SOFTWARE INTERNATIONAL, INC.**

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

**For the Three and Six Months ended June 30, 2009**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") has been prepared by management as of August 13, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements and related notes thereto of Intrinsic Software International, Inc. ("Intrinsic" or the "Company") as at and for the three and six months ended June 30, 2009 and the audited consolidated financial statements and related notes thereto of the Company for the year ended December 31, 2008, which were prepared in accordance with Canadian generally accepted accounting principles. 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](http://www.sedar.com).

### **NOTE ABOUT FORWARD-LOOKING STATEMENTS**

The following Management's Discussion and Analysis contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation that involve risks and uncertainties. Such forward-looking statements or information may include financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the company's underlying assumptions. The words "may", "would", "could", "will", "likely", "expect," "anticipate," "intend", "plan", "forecast", "project", "estimate" and "believe" or other similar words and phrases may identify forward-looking statements or information. Persons are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: the need to develop, integrate and deploy software solutions to meet the Company's customer's requirements; the possibility of development or deployment difficulties or delays; the dependence on the Company's customer's satisfaction; the timing of entering into significant contracts; customers' continued commitment to the deployment of the Company's solutions; the performance of the global economy and growth in software industry sales; market acceptance of the Company's products and services; the success of certain business combinations engaged in by the Company or by its competitors; possible disruptive effects of organizational or personnel changes; technological change, new products and standards; risks related to international expansion; concentration of sales; international operations and sales; dependence upon key personnel and hiring; reliance on a limited number of suppliers; industry growth; competition; intellectual property; product defects and product liability; currency exchange rate risk; and other factors described in the Company's reports filed on SEDAR, including its Annual Information Form and financial report for the year ended December 31, 2008. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. All forward-looking statements are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

### **OVERVIEW**

Intrinsic provides platform software solutions and navigation/location based services ("LBS") applications that enable next-generation handheld products, including smart phones, and other mobile and embedded devices. The Company's products include Destinator<sup>®</sup> navigation and LBSplatform, ToBe Gateway Server for delivering content services based on location, the Soleus<sup>®</sup> Transit platform for connected personal navigation devices, Soleus, a complete software platform for mobile device development, and other software and enabling technology. Combined with award winning Engineering Services, Intrinsic helps device makers, and silicon vendors deliver compelling mobile products with faster time-to-market and improved innovation and quality. Intrinsic is a Microsoft Windows

Embedded Gold Partner and a winner of Windows Embedded Excellence Awards in 2007 and 2008, and is accredited as Symbian and S60 Competence Centers.

The Company was incorporated under the laws of Alberta on August 31, 1992 under the name I.T.C. Microcomponents Inc. and continued under the laws of British Columbia on July 19, 1995. The Company changed its name to Intrinsic Software, Inc. on June 16, 1997. Articles of Continuance were filed under the Canada Business Corporations Act on May 1, 2003 to continue the Company federally and change the name of the Company from Intrinsic Software, Inc. to Intrinsic Software International, Inc. The Company's principal business office is 10<sup>th</sup> 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 is a mobile software and services company offering proprietary software products on a licensed basis and providing software engineering services for the rapidly growing market of mobile handheld products, which includes consumer mobile handsets, personal navigation devices, smartphones and other embedded devices. The Company offers navigation and LBS solutions and platform solutions comprising a combination of software and services.

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

The navigation and LBS solutions are developed and produced by the Company's Mobile Products Development division. These solutions are sold to original equipment manufacturers ("OEMs"), original device manufacturers ("ODMs"), software and silicon providers and telecommunications service providers who deploy mobile products and services such as consumer mobile handsets and personal navigation devices ("PNDs"). The Company's software products and engineering services generate value for its customers by simplifying complex mobile technology development, thereby allowing increased flexibility in design, which in turn enables a more rapid response to the demand for new features or services from end users. The Company has strategically positioned its product and service offerings to capitalize on the anticipated convergence of four industries: telecommunications; computing; entertainment; and consumer electronics related to mobility products and services. Intrinsic believes these trends will result in increased demand for its products and services. Management believes that the Company's solutions, such as Destinator®, Soleus®, enabling technology and its systems integration services, are key in delivering innovative devices including mobile handsets, smart phones and converged devices.

Intrinsic markets its products and services through a worldwide sales and business development team based in Canada, United States, Europe, China, Israel and Taiwan. Management believes that the recent expansion of regional sales and support operations to Mainland China will allow the Company to reach key markets and prospective customers that will support revenue growth.

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

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

## SIGNIFICANT EVENTS FOR SECOND QUARTER 2009

### *Financial Highlights*

- Revenue increase of 11% from three months ended March 31, 2009 and decline of 12% from the three months ended June 30, 2008.
- Operating expenses consisting of sales and marketing, research and development and administration reduced by 27% from three months ended March 31, 2009 and 62% from the three months ended June 30, 2008 respectively.
- Decrease in net loss of 56% to \$708,670 in the three month period ended June 30, 2009 over the three-month period ended March 31, 2009 of \$1.6 million and decrease of 83% over the three month period ended June 30, 2008 of \$4.3 million.
- EBITDA<sup>1</sup> of \$310,242 for the three months ended June 30, 2009 compared to EBITDA of (\$1.2 million) for the three months ended March 31, 2009 and (\$3.7 million) for the three months ended June 30, 2008.
- 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.

### *Customer Highlights*

- 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.

### *Major Management Changes*

- Announced appointment of Tracy Rees as President and Chief Executive Officer effective June 5, 2009.

### *Partner Highlights*

- Announced a broad-based partnership 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.

### *Technological Highlights*

- Launched Destinator 9, a leader in cross-platform GPS navigation software. The newest version of Destinator delivers the mobile industry’s highest quality user experience in navigation devices, with a host of new

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<sup>1</sup> EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization 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. EBITDA referenced here also does not include foreign exchange gains or losses, Technology Partnerships Canada (“TPC”) funding investment, stock based compensation and loss on disposal of equipment.

capabilities and features designed to get people to their destinations easily, quickly and safely. Destinator 9 is available for Android mobile phones, Microsoft Windows Mobile smart phones, Personal Navigation Devices (PNDs) and connected PNDs based on Microsoft Windows Embedded CE.

- 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.

## SELECTED QUARTERLY INFORMATION

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

### Balance Sheets

<i>(in US\$ '000's)</i>	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	August 31, 2007
Cash and cash equivalents	\$10,604	\$10,744	\$12,391	\$19,659	\$30,006	\$35,246	\$12,154	\$18,585
Working capital	\$9,935	\$8,933	\$10,656	\$17,353	\$31,203	\$36,494	\$11,746	\$17,575
Total assets	\$20,183	\$20,924	\$24,841	\$57,757	\$55,164	\$57,379	\$32,691	\$37,241
Other long term financial liabilities	\$21	\$77	\$39	\$107	\$188	\$109	\$139	\$175
Shareholders' equity	\$14,755	\$14,160	\$16,237	\$47,821	\$48,779	\$52,304	\$27,747	\$32,612

### Statements of Operations

<i>(in US\$ '000's, except earnings per share)</i>	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended December 31, 2008	Three months ended September 30, 2008	Three months ended June 30, 2008	Three months ended March 31, 2008	Four months ended December 31, 2007	Three months ended August 31, 2007
Revenue	\$4,875	\$4,401	\$5,728	\$7,870	\$5,566	\$5,556	\$5,260	\$4,288
Cost of goods sold	2,145	2,281	2,639	3,093	2,956	3,020	3,344	2,184
Gross margin	2,730	2,120	3,089	4,777	2,610	2,536	1,916	2,104
Expenses								
Sales and marketing	745	1,144	1,181	2,317	1,822	1,828	2,379	1,727
Research and development	1,141	1,363	3,437	4,097	2,695	2,547	3,371	2,642
Administration	534	804	1,577	2,466	1,795	1,821	2,178	1,199
Amortization	339	319	698	738	211	212	286	213
Stock-based compensation	109	85	215	280	283	284	232	154
Technology Partnerships Canada								
Funding Investment	143	135	24	117	159	23	-	129
Loss on disposal of equipment	200	21	-	-	-	-	-	-
Total operating expenses	3,211	3,871	7,132	10,015	6,965	6,715	8,446	6,064
Loss before other items and income taxes	(481)	(1,751)	(4,043)	(5,238)	(4,355)	(4,179)	(6,530)	(3,960)
Other items	314	(152)	21,139	377	(202)	(386)	759	(126)
Loss before income taxes	(795)	(1,599)	(25,182)	(5,615)	(4,153)	(3,793)	(7,289)	(3,834)
Income tax expense	(86)	25	(148)	121	98	44	58	50
Net loss	(\$709)	(\$1,624)	(\$25,034)	(\$5,736)	(\$4,251)	(\$3,837)	(\$7,347)	(\$3,884)
Loss per share	(\$0.01)	(\$0.01)	(\$0.15)	(\$0.04)	(\$0.03)	(\$0.04)	(\$0.06)	(\$0.03)

## FINANCIAL RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2009

The following analysis of the results of operations for the three months ended June 30, 2009 includes comparisons to the three-month periods ended March 31, 2009 and June 30, 2008, respectively.

### 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:

- Solutions 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.

Service 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 may be of a stand-alone nature, or may be part of a corresponding sale of hardware, software, or both. Additionally, the services provided may be of an on-going nature, such as for post software customer support services, or may be for specific consulting and software modification services. Revenue is also generated by way of licensing software products, along with providing related customer services.

<i>Revenue by Source</i>	<b>Three months ended June 30, 2009</b>		<b>Three months ended March 31, 2009</b>		<b>Three months ended June 30, 2008</b>	
		<b>%</b>		<b>%</b>		<b>%</b>
Solutions Engineering	\$2,408,468	49%	\$2,378,954	54%	\$3,989,671	72%
Software Solutions	2,100,066	43%	1,736,417	40%	1,270,567	23%
Hardware	366,087	8%	285,436	6%	305,779	5%
<b>Total revenue</b>	<b>\$4,874,621</b>	<b>100%</b>	<b>\$4,400,807</b>	<b>100%</b>	<b>\$5,566,017</b>	<b>100%</b>

Revenue for the three month period ended June 30, 2009 increased by 11% from the three month period ended March 31, 2009 with the increase over the prior quarter attributable to higher sales of the Company's software solutions. Revenue for the three month period ended June 30, 2009 represented a decrease of 12% from the three months ended June 30, 2008 due to a reduction in solutions engineering resulting from the recent acquisition of Symbian by Nokia offset by increased software solutions revenue primarily due to the acquisition of Destinator. While engineering services continued to account for the majority of the Company's revenue for both periods, software solutions revenue contribution to the total revenue increased from 23% in the three months ended June 30, 2008 to 43% and 40% for the three months ended June 30 and March 31, 2009, respectively.

Solutions engineering revenue for the three months ended June 30, 2009 was \$2.4 million, compared to \$2.4 million for the three months ended March 31, 2009 and \$4.0 million for the three months ended June 30, 2008 due to a decrease in the number of engineering services contracts during the current period and the decline in outsourced development services provided to Symbian arising from the acquisition of Symbian by Nokia in late 2008.

Total revenues attributable to the Company's software solutions increased to 43% of total revenues during the three months ended June 30, 2009 compared to 23% for the three months ended June 30, 2008 and were consistent with 40% experienced in the three months ended March 31, 2009. The increase in software solutions revenue in the three months ended June 30 and March 31, 2009 was primarily due to the addition of the Destinator navigation software, a product which the Company began selling after its acquisition in July 2008.

Hardware revenue was \$366,087 in the three months ended June 30, 2009 accounting for 8% of total revenue compared to \$285,436 or 6% of total revenue for the three months ended March 31, 2009 and \$305,779 or 5% of total revenue for the three months ended June 30, 2008.

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:

	<b>Three months ended June 30, 2009</b>	<b>Three months ended March 31, 2009</b>	<b>Three months ended June 30, 2008</b>
Revenue	\$2,266,596	\$1,875,138	\$3,486,877
<b>Percentage of total revenue</b>	<b>47%</b>	<b>43%</b>	<b>63%</b>

The three customers accounting for 47% of the total revenue for the three months ended June 30, 2009 were not the same three customers that accounted for 43% and 63% of the total revenue for the three months ended March 31, 2009 and June 30, 2008, respectively.

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

	Three months ended June 30, 2009		Three months ended March 31, 2009		Three months ended June 30, 2008	
		%		%		%
United States	\$3,097,084	64%	\$2,257,007	51%	\$1,927,009	35%
Canada	66,680	1%	32,136	1%	140,239	3%
Europe	781,529	16%	1,395,977	32%	2,748,617	49%
Asia	747,978	15%	376,505	8%	415,071	7%
Other	181,350	4%	339,182	8%	335,081	6%
<b>Total revenue</b>	<b>\$4,874,621</b>	<b>100%</b>	<b>\$4,400,807</b>	<b>100%</b>	<b>\$5,566,017</b>	<b>100%</b>

The Company has historically generated the majority of its revenue from the United States and European markets and has experienced increasing revenue attributable to other regions due to increasing sales to customers based in Asia.

### Gross Margin

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

	Three months ended June 30, 2009		Three months ended March 31, 2009		Three months ended June 30, 2008	
		%		%		%
Revenues	\$4,874,621	100%	\$4,400,807	100%	\$5,566,017	100%
Cost of sales	2,144,748	44%	2,280,615	52%	2,956,178	53%
<b>Gross margin</b>	<b>\$2,729,873</b>	<b>56%</b>	<b>\$2,120,192</b>	<b>48%</b>	<b>\$2,609,839</b>	<b>47%</b>

Gross margin percentage for the three months ended June 30, 2009 was 56%, representing an increase from the gross margin for three months ended March 31, 2009 of 48% and an increase over the gross margin for the three month period ended June 30, 2008 of 47%. The increase in gross margin for the three months ended June 30, 2009 over the same period in the prior year is directly attributable to the addition of Destinator's navigation software revenue while the increase over the prior period is due to increased revenues attributable to the Company's software solutions business at higher gross margin during the second quarter of fiscal 2009.

### Operating Expenses

	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
Sales and marketing	\$744,602	\$1,143,915	\$1,822,475
Research and development	1,140,993	1,363,089	2,694,824
Administration	534,036	803,590	1,794,631
Amortization	339,417	319,329	210,896
Stock-based compensation	108,871	84,508	283,367
Technology Partnerships Canada Funding Investment	143,135	134,934	158,682
Loss on disposal of equipment	199,793	20,552	-
<b>Total operating expenses</b>	<b>\$3,210,847</b>	<b>\$3,869,917</b>	<b>\$6,964,875</b>
<b>As a percentage of total revenue</b>	<b>66%</b>	<b>88%</b>	<b>125%</b>

Total operating expenses for the Company for the three months ended June 30, 2009 decreased by 17% to \$3.2 million over the three-month period ended March 31, 2009 of \$3.9 million and by 54% over the three months period ended June 30, 2008 of \$7.0 million. 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 increased operating efficiencies during the three months ended June 30, 2009 over the prior periods as well as negotiated concessions from several vendors during the period.

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

	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
Sales and marketing	\$744,602	\$1,143,915	\$1,822,475
Research and development	1,140,993	1,363,089	2,694,824
Administration	534,036	803,590	1,794,631
<b>Total operating expenses</b>	<b>\$2,419,631</b>	<b>\$3,310,594</b>	<b>\$6,311,930</b>
<b>As a percentage of total revenue</b>	<b>50%</b>	<b>75%</b>	<b>113%</b>

Total operating expenses consisting of sales and marketing, research and development and administration decreased by 27% to \$2.4 million for the three months ended June 30, 2009 from \$3.3 million for the three months ended March 30, 2009 and by 62% from the \$6.3 million for the three months ended June 30, 2008. In particular, sales and marketing activities decreased by approximately \$400,000, research and development costs decreased by approximately \$220,000 and administration expenses decreased by approximately \$270,000 over the prior quarter. Sales and marketing activities decreased by approximately \$1.1 million, research and development costs decreased by approximately \$1.6 million and administration expenses decreased by approximately \$1.3 million over the second quarter of 2008.

**Sales and Marketing**

	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
Sales and marketing	\$744,602	\$1,143,915	\$1,822,475
<b>As a percentage of total revenue</b>	<b>15%</b>	<b>26%</b>	<b>33%</b>

The Company maintains a direct sales force, with staff in the United States, Canada, United Kingdom, China and Taiwan. 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 June 30, 2009 decreased by 35% to \$745,000 from \$1.1 million for the three months ended March 31, 2009. Sales and marketing expenses decreased by 59% from \$1.8 million for three months ended June 30, 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 June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
Research and development	\$1,140,993	\$1,363,089	\$2,694,824
<b>As a percentage of total revenue</b>	<b>23%</b>	<b>31%</b>	<b>48%</b>

The Company has research and development groups primarily located in China and Israel. Research and development expenses relate primarily to salaries and related benefit costs, as well as a portion of the Company's overall facilities costs.

Research and development expenses totalled \$1.1 million for the three months ended June 30, 2009 which was primarily related to the Company's Destinator product offering. This represents a decrease of 16% from the \$1.4 million invested in research and development during the three months ended March 31, 2009. This also represents a decrease of 58% from the \$2.7 million for three months ended June 30, 2008 which was primarily invested in the Company's Soleus product offering.

The decrease in research and development costs during the three months ended June 30, 2009 over the prior year was attributable largely to a lower headcount and lower costs of the China based staff. The Company had a total of 65 employees in its research and development department as at June 30, 2009 compared to 74 as at March 30, 2009 and 69 as at June 30, 2008 resulting in a lower average cost per employee due to its transition to a lower cost based development center in China.

### Administration

	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
Administration	\$534,036	\$803,590	\$1,794,631
<b>As a percentage of total revenue</b>	<b>11%</b>	<b>18%</b>	<b>32%</b>

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 June 30, 2009 were \$534,000 representing a reduction of 34% from the \$804,000 for the three months ended March 31, 2009 and 70% from the \$1.8 million for the three months ended June 30, 2008. The decrease in the administration expense for the three months ended June 30, 2009 over the prior periods was primarily due to a decrease in employee related costs, facility related overhead and a decrease of professional fees.

### EBITDA

Earnings before amortization, TPC funding investment, stock based compensation and loss on disposal of equipment ("EBITDA") was \$310,000 for the three months ended June 30, 2009 compared to (\$1.2 million) for the three months ended March 31, 2009 and (\$3.7 million) for the three months ended June 30, 2008.

	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
Loss before other expense (earnings) and income taxes	(\$480,974)	(\$1,729,173)	(\$4,355,036)
Less:			
Amortization	339,417	319,329	210,896
Stock-based compensation	108,871	84,508	283,367
TPC Funding Investment	143,135	134,934	158,682
Loss on disposal of equipment	199,793	-	-
<b>EBITDA</b>	<b>\$ 310,242</b>	<b>(\$1,190,402)</b>	<b>(\$3,702,091)</b>

## Other Items

	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
Foreign exchange loss (gain)	\$310,261	(\$113,183)	\$ 52,604
Interest expense (income)	3,898	(37,829)	(254,420)
<b>Other items</b>	<b>\$314,159</b>	<b>(\$151,012)</b>	<b>(\$201,816)</b>

Other items for the three months ended June 30, 2009 totalled net other loss of \$314,159, compared to net other income of \$151,012 for the three months ended March 31, 2009 and net other income of \$201,816 for the three months ended June 30, 2008. Net other loss for the three months ended June 30, 2009 was attributable to a foreign exchange loss of \$310,261 and interest expense of \$3,898.

## FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2009

The following analysis of the results of operations for the six months ended June 30, 2009 includes comparisons to the six-month periods ended June 30, 2008.

### Revenue

<i>Revenue by Source</i>	Six months ended June 30, 2009	%	Six months ended June 30, 2008	%	Change
Solutions Engineering	\$4,787,422	52%	\$8,008,317	72%	(40%)
Software Solutions	3,836,483	41%	2,248,081	20%	71%
Hardware	651,523	7%	865,153	8%	(25%)
<b>Total revenue</b>	<b>\$9,275,428</b>	<b>100%</b>	<b>\$11,121,551</b>	<b>100%</b>	<b>(17%)</b>

Revenue for the six months ended June 30, 2009 decreased by 17% to \$9.3 million compared to the six month period ended June 30, 2008 which is attributable to decreased solutions engineering revenue due to the decline in outsourced development services provided to Symbian arising from the acquisition of Symbian by Nokia in late 2008 offset by an increase in the 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 six month periods ended June 30, 2009 and June 30, 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:

	Six months ended June 30, 2009	Six months ended June 30, 2008	Change
Revenue	\$3,895,592	\$6,989,509	(44%)
<b>Percentage of total revenue</b>	<b>42%</b>	<b>63%</b>	

The three customers accounting for 63% of the total revenue for the six months ended June 30, 2008 were not the same three customers that accounted for 42% of the total revenue for the six months ended June 30, 2009.

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

	Six months ended June 30, 2009		Six months ended June 30, 2008		Change
		%		%	
United States	\$5,354,091	58%	\$4,024,722	36%	33%
Canada	98,816	1%	334,554	3%	(70%)
Europe	2,177,506	23%	5,438,765	49%	(60%)
Asia	1,124,484	12%	957,647	9%	17%
Other	520,531	6%	365,863	3%	42%
<b>Total revenue</b>	<b>\$9,275,428</b>	<b>100%</b>	<b>\$11,121,551</b>	<b>100%</b>	<b>(17%)</b>

Revenue for the six months ended June 30, 2009 included \$1.1 million or 12% from primarily Asian-based customers. The Company expects that in the future, the revenue contribution from Asian customers will continue to expand.

### Gross Margin

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

	Six months ended June 30, 2009		Six months ended June 30, 2008		Change
		%		%	
Revenues	\$9,275,428	100%	\$11,121,551	100%	(17%)
Cost of sales	4,425,363	48%	5,975,526	54%	(26%)
<b>Gross margin</b>	<b>\$4,850,065</b>	<b>52%</b>	<b>\$5,146,025</b>	<b>46%</b>	<b>(6%)</b>

Gross margin for the six months ended June 30, 2009 decreased to \$4.9 million, but increased from 46% of total revenue to 52% of total revenue. The increase in gross margin percentage for the six months ended June 30, 2009 over the same period in the prior year is directly attributable to the addition of Destinator's navigation software.

### Operating Expenses

	Six months ended June 30, 2009	Six months ended June 30, 2008	Change
Sales and marketing	\$1,888,517	\$3,650,850	(48%)
Research and development	2,504,082	5,241,471	(52%)
Administration	1,337,626	3,615,608	(63%)
Amortization	658,746	422,704	56%
Stock-based compensation	193,379	567,626	(66%)
Technology Partnerships Canada Funding Investment	278,069	182,101	53%
Loss on disposal of equipment	220,345	-	N/A
<b>Total operating expenses</b>	<b>\$7,080,764</b>	<b>\$13,680,360</b>	<b>(48%)</b>
<b>As a percentage of total revenue</b>	<b>76%</b>	<b>123%</b>	

Total operating expenses for the Company for the six months ended June 30, 2009 decreased by 48% to \$7.1 million compared to the six-month period ended June 30, 2008 operating expenses of \$13.7 million. 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 restructuring that took place in late 2008 as well as negotiated concessions from several vendors during the period.

Operating expenses expressed as a percentage of revenue declined to 76% in the six months ended June 30, 2009 from 123% in the six months ended June 30, 2008.

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

	Six months ended June 30, 2009	Six months ended June 30, 2008	Change
Sales and marketing	\$1,888,517	\$3,650,850	(48%)
Research and development	2,504,082	5,241,471	(52%)
Administration	1,337,626	3,615,608	(63%)
Total operating expenses	\$5,730,225	\$12,507,929	(54%)
<b>As a percentage of total revenue</b>	<b>62%</b>	<b>112%</b>	

Total operating expenses consisting of sales and marketing, research and development and administration decreased by 54% to \$5.7 million for the six months ended June 30, 2009 from \$12.5 million for the six months ended June 30, 2008. In particular, sales and marketing activities decreased by approximately \$1.8 million, research and development costs decreased by approximately \$2.7 million and administration expenses decreased by approximately \$2.3 million over the comparable six-month period. The decrease for the six months ended June 30, 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**

	Six months ended June 30, 2009	Six months ended June 30, 2008	Change
Sales and marketing	\$1,888,517	\$3,650,850	(48%)
<b>As a percentage of total revenue</b>	<b>20%</b>	<b>33%</b>	

Total sales and marketing expenses for the six months ended June 30, 2009 decreased approximately \$1.8 million, or 48% when compared to the six months ended June 30, 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**

	Six months ended June 30, 2009	Six months ended June 30, 2008	Change
Research and development	\$2,504,082	\$5,241,471	(52%)
<b>As a percentage of total revenue</b>	<b>27%</b>	<b>47%</b>	

Research and development costs for the six months ended June 30, 2009 declined by approximately \$2.7 million or 52% over the six months ended June 30, 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 six months ended June 30, 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.

### Administration

	Six months ended June 30, 2009	Six months ended June 30, 2008	Change
Administration	\$1,337,626	\$3,615,608	(63%)
<b>As a percentage of total revenue</b>	<b>14%</b>	<b>33%</b>	

General and administration expense for the six months ended June 30, 2009 decreased by \$2.3 million or 63% when compared to the six months ended June 30, 2008. This decrease is attributable to decreased salaries and benefits, travel, professional fees and general operating expenses.

### EBITDA

Earnings before amortization, TPC funding investment, stock based compensation and loss on disposal of equipment ("EBITDA") was (\$880,000) for the six months ended June 30, 2009 compared to (\$7.4 million) for the six months ended June 30, 2008.

	Six months ended June 30, 2009	Six months ended June 30, 2008
Loss before other expense (earnings) and income taxes	(\$2,230,699)	(\$8,534,335)
Less:		
Amortization	658,746	422,704
Stock-based compensation	193,379	567,626
TPC Funding Investment	278,069	182,101
Loss on disposal of equipment	220,345	-
<b>EBITDA</b>	<b>(\$ 880,160)</b>	<b>(\$7,361,904)</b>

### Other Items

	Six months ended June 30, 2009	Six months ended June 30, 2008
Foreign exchange loss (gain)	\$197,078	(\$161,889)
Interest expense (income)	(33,931)	(426,365)
<b>Other items</b>	<b>\$163,147</b>	<b>(\$588,254)</b>

Other items for the six months ended June 30, 2009 totalled net other loss of \$163,147 compared to net other income of \$588,254 for the six months ended June 30, 2008. Net other loss during the six months ended June 30, 2009 consisted of foreign exchange loss of \$197,078 offset by interest income of \$33,931. The decrease in interest income for the six month period ended June 30, 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 June 30, 2009, the Company had cash totalling approximately \$10.6 million, with working capital<sup>2</sup> of \$9.9 million, as compared to cash of \$10.7 million and working capital of \$8.9 million as at March 31, 2009 and cash of \$30.0 million and working capital of \$31.2 million as at June 30, 2008.

### Three Months ended June 30

<b>Cash provided by (used in):</b>	<b>Three months ended June 30, 2009</b>	<b>Three months ended March 31, 2009</b>	<b>Three months ended June 30, 2008</b>
Operating activities	(\$1,032,999)	(\$1,172,846)	(\$2,237,533)
Investing activities	(3,075)	(22,866)	(3,332,271)
Financing activities	(8,561)	(42,653)	41,520
Effect of exchange rate changes on cash and cash equivalents	904,620	(408,998)	287,105
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(\$ 140,015)</b>	<b>(\$1,647,363)</b>	<b>(\$5,241,179)</b>

As a result of the Company's aggressive cost reduction initiatives in late 2008, the Company has reduced the cash used in operating activities in the three months ended June 30, 2009 to \$1.0 million, a decrease of 12% over the prior quarter amount of \$1.2 million. The Company has also reduced the cash used in operating activities in the three months ended June 30, 2009 by 54% over the three months ended June 30, 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 used in investing activities for the three months ended June 30, 2009 was \$3,075 compared with \$23,000 for the three months ended March 31, 2009 and \$3.3 million for the same period in the prior year. During the three months ended June 30, 2009 and March 31, 2009, cash used was attributable to the purchase of equipment. This compares to the three-month period ended June 30, 2008 when the Company used approximately \$3.3 million for investing activities due the advancement of a \$2.0 million short-term loan to Destinator, and increase of \$1.0 million for deferred acquisition costs related to the acquisition of Destinator assets on July 9, 2008 and \$312,000 in equipment purchases.

During the three months ended June 30, 2009 and March 31, 2009, cash used by financing activities was attributable primarily to repayments for capital lease obligations. This compares to the three-month period ended June 30, 2008, when exercise of employee options resulted in positive cash inflow from financing activities.

### Six Months ended June 30

<b>Cash provided by (used in):</b>	<b>Six months ended June 30, 2009</b>	<b>Six months ended June 30, 2008</b>
Operating activities	(\$2,205,845)	(\$7,155,398)
Investing activities	(25,941)	(4,006,241)
Financing activities	(51,214)	29,970,771
Effect of exchange rate changes on cash and cash equivalents	495,622	(957,110)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(\$1,787,378)</b>	<b>\$17,852,022</b>

<sup>2</sup> 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.

As a result of the Company's aggressive cost reduction initiatives in late 2008, the Company has reduced the cash used in operating activities in the six months ended June 30, 2009 to \$2.2 million, a decrease of 69% over the six-month period ended June 30, 2008.

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 six months ended June 30, 2009 was \$26,000 which was attributable to the purchase of equipment. This is compared to the same period in the prior year when the Company used approximately \$4.0 million for investing activities due the advancement of a \$2.0 million short-term loan to Destinator, an increase of \$1.4 million for deferred acquisition costs related to the acquisition of Destinator assets on July 9, 2008 and \$600,000 in equipment purchases.

During the six months ended June 30, 2009, cash used by financing activities was attributable primarily to repayments for capital lease obligations. This compares to the three-month period ended June 30, 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 8% during the three months ended June 30, 2009, cash and cash equivalents increased by approximately \$900,000. The Canadian dollar strengthened 5% during the six months ended June 30, 2009 which increased cash and cash equivalents by \$500,000. 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 and six months ended June 30, 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 June 30, 2009	As at March 31, 2009	As at September 30, 2008	As at June 30, 2008
Service engineers	73	90	126	122
Sales and marketing	15	18	29	31
Research and development	65	74	138	69
Administration	18	24	34	38
<b>Total</b>	<b>171</b>	<b>206</b>	<b>327</b>	<b>260</b>

The Company increased its total headcount to approximately 375 employees due to its acquisition of selected assets of Destinator Technologies Inc. in July 2008. Due to the Company's restructuring initiatives executed in late 2008, the total head count has been reduced to 171 employees as at June 30, 2009.

## COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or significant capital leases. The Company has leased facilities in Canada, Taiwan, China, Israel, and United States. Minimum lease payments as at June 30, 2009 are as follows for the years ending December 31:

<b>Contractual Obligations</b>	<b>Total</b>	<b>F2009</b>	<b>F2010</b>	<b>F2011</b>	<b>F2012</b>	<b>F2013</b>	<b>F2014</b>	<b>F2015</b>
Operating lease obligations	\$2,437,464	\$624,445	\$322,046	\$308,567	\$301,891	\$301,891	\$301,891	\$276,733

## GOVERNMENT ASSISTANCE

### Technology Partnerships Canada ("TPC")

Under agreements with the Government of Canada's Technology Partnerships Canada ("TPC") program, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of \$3.8 million in contributions during the term of the agreement. In exchange for these contributions, the Company has agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over \$10,000,000 until August 31, 2011. To date the Company has paid and accrued approximately CDN \$1,452,396 to TPC in royalties.

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

The Company received correspondence from the Industrial Technology Office ("ITO" formerly "TPC") indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and that an invoice will be issued to the Company for approximately 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 a dialogue with the ITO in order to arrive at a final determination of eligibility of these costs under the program. The Company continues to believe the costs are eligible under the program and has determined it will continue to vigorously defend its position with the ITO. The ITO has not issued an invoice to the Company to date. At this time, the Company is unable to assess the likelihood of repayment of the requested amounts or arrive at an estimate for the quantum of any possible future repayments.

Any amount the Company pays the ITO in excess of the accrued 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 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 June 30, 2009, the Company has not received any funding nor recorded any reduction to "Research and development."

## **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 are impaired. The recorded balance of intangible assets is \$3,843,086 as at June 30, 2009 which are attributable to the Company's acquisition of Destinator in July 2008. 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. 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 impairment of such intangible assets as at June 30, 2009.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

Except as noted below, during the six month period ended June 30, 2009, the Company did not adopt any new accounting policies that would have a material impact on its consolidated financial statements, nor did it make changes to existing accounting policies.

### **HB Section 3064 - Goodwill and Intangible Assets**

Effective January 1, 2009, the Company retroactively without restatement adopted the following new accounting standards issued by the CICA. 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. Management has determined that there is no 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.

### **Accounting standards**

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

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

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

## **RISKS AND UNCERTAINTIES**

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

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

### **Worsened General Economic Conditions**

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

### **Additional Financing**

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

## **Major Industry Software Vendor Partners May Become Competitors**

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

## **History of Losses**

The Company has a history of losses, and there can be no assurance that the Company's losses will not continue in the future. As at June 30, 2009, the Company had an accumulated deficit of approximately \$103 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 six-month period ended June 30, 2009, approximately 47% and 42% 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 market for mobile device and interoperability software and services is emerging and the potential size of this market and the timing of its development are not well known. As a result, the Company's profit potential is uncertain and the Company's revenue may not grow as fast as the Company anticipates, if at all. The Company is dependent upon the broad acceptance by business and consumers of mobile devices, particularly mobile phones utilizing high level operating systems, as well as supporting applications, which will depend on many factors, including:

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

## **Foreign Exchange Risk**

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

## **Potential Fluctuations in Quarterly Results**

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

## **Dependence on Key Personnel**

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

## **Acquisitions**

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

## **Product Liability**

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

## **Future Share Sales**

If the Company's shareholders sell substantial amounts of the Company's common shares, the market price of the Company's common shares could decrease. As of August 13, 2009, the Company has 163,259,070 shares outstanding. Additionally, the Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect the lesser of (i) 10% less 1 share of the issued and outstanding common shares of the Company from time to time; and (ii) 30,000,000 common shares of the Company. As of August 13, 2009, 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 8,935,803 options are issued and outstanding. Also, 16,197,275 common shares are reserved for issuance pursuant to outstanding warrants.

## **Shareholder Rights Plan**

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

## **Non-recurring Costs**

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

## **Management of Growth**

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them by others

within the Company. The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with Canadian generally accepted accounting principles.

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal controls over financial reporting. This evaluation identified 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 six-month period ended June 30, 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 June 30, 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.

**FORM 52-109F2**  
**CERTIFICATION OF INTERIM FILINGS**

I, Tracy Rees, Chief Executive Officer of Intrinsic Software International, Inc., certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Intrinsic Software International, Inc. (the “issuer”) for the interim period ended June 30, 2009.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. **Responsibility:** The issuer’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the financial year end

- a. designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
  - i. material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
  - ii. information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- b. designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

5.1 **Control framework:** The control framework the issuer’s other certifying officers and I used to design the issuer’s ICFR is the COSO internal framework (Committee of Sponsoring Organizations of the Treadway Commission).

5.2 **ICFR – material weakness relating to design:** N/A

5.3 **Limitation on scope of design:** N/A.

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on January 1, 2009 and ended on June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: August 13, 2009

“Tracy Rees”

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Tracy Rees  
Chief Executive Officer

**FORM 52-109F2**  
**CERTIFICATION OF INTERIM FILINGS**

I, George Reznik, Chief Financial Officer of Intrinsic Software International, Inc., certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Intrinsic Software International, Inc. (the “issuer”) for the interim period ended June 30, 2009.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. **Responsibility:** The issuer’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the financial year end

- a. designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
  - i. material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
  - ii. information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- b. designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

5.1 **Control framework:** The control framework the issuer’s other certifying officers and I used to design the issuer’s ICFR is the COSO internal framework (Committee of Sponsoring Organizations of the Treadway Commission).

5.2 **ICFR – material weakness relating to design:** N/A

5.3 **Limitation on scope of design:** N/A.

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on January 1, 2009 and ended on June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: August 13, 2009

“George Reznik”

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George Reznik  
Chief Financial Officer