



INTRINSYC SOFTWARE INTERNATIONAL, INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and December 31, 2009
(expressed in U.S. dollars)

MANAGEMENT'S RESPONSIBILITY

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

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

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

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



Tracy Rees
Chief Executive Officer
March 21, 2011



George Reznik
Chief Financial Officer
March 21, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Intrinsic Software International, Inc.

We have audited the accompanying consolidated financial statements of **Intrinsic Software International, Inc.**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss and deficit, loss and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material

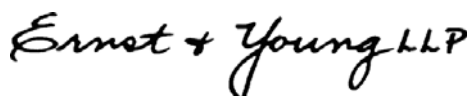
misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Intrinsyc Software International, Inc.** as at December 31, 2010 and 2009, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
March 21, 2011

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered Accountants

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Balance Sheets

(Expressed in U.S. dollars)

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

As at	December 31, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,152,439	\$ 11,710,227
Accounts receivable (notes 4 and 18)	2,992,007	3,401,467
Inventory	26,208	14,269
Prepaid expenses - current	162,336	313,528
Total current assets	14,332,990	15,439,491
Restricted cash (note 3)	-	95,147
Prepaid expenses	44,551	47,063
Equipment (notes 6 and 15)	549,945	735,807
Intangible assets (note 5)	580,434	3,880,481
Total assets	\$ 15,507,920	\$ 20,197,989
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (notes 16 and 18)	\$ 2,164,951	\$ 3,574,134
Current portion of long-term payable to Technology Partnerships Canada (notes 8(a) and 13(c))	72,561	-
Capital lease obligations - current (note 9)	7,818	45,179
Deferred revenue	471,285	526,169
Total current liabilities	2,716,615	4,145,482
Long-term payable to Technology Partnerships Canada (notes 8(a) and 13(c))	179,162	-
Long-term capital lease obligations (note 9)	-	7,388
Total liabilities	2,895,777	4,152,870
Shareholders' equity		
Share capital (note 10)	108,288,585	108,288,585
Warrants and underwriters' options (notes 10 and 11)	-	4,029,953
Contributed surplus (note 11)	9,499,731	5,230,217
Accumulated other comprehensive income (note 7)	2,863,087	2,068,103
Deficit	(108,039,260)	(103,571,739)
Total shareholders' equity	12,612,143	16,045,119
Total liabilities and shareholders' equity	\$ 15,507,920	\$ 20,197,989

Commitments and contingencies (note 13)

See accompanying notes to consolidated financial statements

On behalf of the Board:



Director



Director

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Operations and Deficit

(Expressed in U.S. dollars)

For the	Year ended December 31, 2010	Year ended December 31, 2009
Revenues (note 15)	\$ 12,712,290	\$ 17,485,074
Cost of sales	5,430,696	7,738,538
	7,281,594	9,746,536
Expenses		
Sales and marketing	1,989,403	3,345,696
Research and development (note 8(b))	2,271,452	4,576,596
Administration	2,600,120	2,117,704
Amortization (notes 5 and 6)	1,190,023	1,252,184
Stock-based compensation (notes 10 and 11)	239,561	510,238
Technology Partnerships Canada Funding Investment (note 8(a))	287,192	342,055
Asset impairment (note 5)	2,542,543	-
Restructuring (note 16)	485,478	-
Loss (gain) on disposal of equipment (notes 5 and 6)	(2,150)	204,166
	11,603,622	12,348,639
Loss before other expenses (earnings) and income taxes	4,322,028	2,602,103
Other expenses (earnings)		
Foreign exchange loss	261,607	665,847
Interest income (note 8 (a))	(45,698)	(72,350)
Loss before income taxes	4,537,937	3,195,600
Income tax recovery (note 12)		
Current	(70,416)	(265,495)
	(70,416)	(265,495)
Net loss for the year	4,467,521	2,930,105
Deficit, beginning of year	103,571,739	100,641,634
Deficit, end of year	\$108,039,260	\$103,571,739
Loss per share (basic and diluted)	\$0.03	\$0.02
Weighted average number of shares outstanding	163,259,070	163,256,969

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Comprehensive Loss

(Expressed in U.S. dollars)

For the	Year ended December 31, 2010	Year ended December 31, 2009
Net loss for the year	(\$ 4,467,521)	(\$2,930,105)
Other comprehensive gain:		
Unrealized gains on translating financial statements from functional currency to reporting currency (<i>note 7</i>)	\$ 794,984	\$ 2,227,503
Comprehensive loss for the year	(\$ 3,672,537)	(\$ 702,602)

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Cash Flows

(Expressed in U.S. dollars)

For the	Year ended December 31, 2010	Year ended December 31, 2009
OPERATING ACTIVITIES		
Net loss for the year	(\$ 4,467,521)	(\$ 2,930,105)
Items not involving cash:		
Amortization	1,190,023	1,252,184
Future income taxes	-	(2,603)
Stock-based compensation (<i>note 11</i>)	239,561	510,238
Asset impairment	2,542,543	
Loss on disposal of equipment	-	243,976
Settlement with Technology Partnerships Canada (<i>notes 8(a) and 13(c)</i>)	316,433	-
Changes in non-cash operating working capital:		
Accounts receivable	580,121	3,318,137
Inventory	(11,449)	794
Prepaid expenses	169,609	231,717
Accounts payable and accrued liabilities	(1,557,935)	(4,580,038)
Deferred revenue	(80,613)	(346,738)
Cash used in operating activities	(1,079,228)	(2,302,438)
INVESTING ACTIVITIES		
Purchase of equipment	(71,215)	(55,858)
Cash used in investing activities	(71,215)	(55,858)
FINANCING ACTIVITIES		
Issuance of common shares and warrants (<i>note 10</i>)	-	251
Repayment of capital lease obligation (<i>note 9</i>)	(45,935)	(78,050)
Payment as part of settlement with Technology Partnerships Canada (<i>notes 8(a) and 13(c)</i>)	(74,033)	-
Restricted cash (<i>note 3</i>)	97,248	139,725
Cash provided by financing activities	(22,720)	61,926
Effect of exchange rate changes on cash and cash equivalents	615,375	1,615,145
Decrease in cash and cash equivalents	(557,788)	(681,225)
Cash and cash equivalents, beginning of year	11,710,227	12,391,452
Cash and cash equivalents, end of year	\$ 11,152,439	\$ 11,710,227
Supplementary information		
Interest received	\$ 61,350	\$ 61,310
Income taxes paid	70,756	50

See accompanying notes to consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

1. ORGANIZATION AND BASIS OF FINANCIAL STATEMENT PRESENTATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Changes in accounting policies

There were no changes in accounting policies during the year ended December 31, 2010.

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 determined there is no impact of adopting this standard.

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

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, the new CICA Handbooks Section 1601 and Section 1602 will replace Section 1600 "Consolidated Financial Statements". These sections establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements. Earlier adoption of this section is permitted as of the beginning of a fiscal year. Management has determined there is no impact of adopting this standard.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

EIC 175 – Multiple Deliverable Revenue Arrangements

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

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

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal year, it must be applied retroactively from the beginning of the Company’s fiscal period of adoption. Management has determined there is no 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 for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company’s reporting for the first quarter in the fiscal year ending December 31, 2011 with comparative information also prepared under IFRS.

In 2009, the Company commenced a comprehensive IFRS conversion plan which addressed changes in accounting policies, restatement of comparative periods, organization, internal controls and any required changes to business processes. This conversion plan continued in fiscal 2010. To facilitate this process and ensure that the full impact of the conversion was understood and managed reasonably, the Company has retained consultants to assist with the IFRS conversion project. Through assistance with respect to training and preparation of reconciliations of historical Canadian GAAP financial statements to IFRS, the Company believes that its accounting department has obtained sufficient understanding of IFRS for implementation purposes.

The Company is required to apply all of those IFRS standards which are effective for periods ending December 31, 2011 and apply them to its opening January 1, 2010 balance sheet (“transition date”).

The Company has completed its preliminary assessment of the differences between IFRS and Canadian GAAP that may potentially impact the recognition, measurement and presentation of the Company’s financial statement balances

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

The following sets out the Company's IFRS policy decisions and significant expected accounting differences based on the Company's preliminary analysis of current IFRS standards. Additional differences between Canadian GAAP and IFRS may be identified as the Company's transition plan is completed in fiscal 2011. As a result, these accounting policy choices may change prior to the publication of the Company's unaudited March 31, 2011 financial statements. Decisions with respect to accounting policy changes, outlined below, may change once management has quantified and thoroughly analyzed the effect of such changes and has presented them for final review and approval by the Audit Committee.

In the year of transition to IFRS, the Company is allowed to elect certain exemptions in order to not apply each IFRS on a retrospective basis. Based on the analysis to date, the Company expects to apply the following optional exemptions under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, that may be significant to the Company in preparing its consolidated financial statements under IFRS:

- [a] **Business Combinations** – IFRS 1 requires the relevant IFRS business combination standards be applied on a prospective or retroactive basis. The Company intends to elect to apply IFRS 3, *Business Combinations (revised)*, on a prospective basis for all business combinations completed after January 1, 2010 and will not restate the Destinator or any other prior business combination.
- [b] **Cumulative Translation Adjustments** – The Company's functional currency is the Canadian dollar. IFRS 1 allows cumulative translation adjustments for foreign operations to be recognized in equity on transition. Gains or losses from the subsequent disposal of foreign operations would exclude translation differences arising prior to adopting IFRS. The Company will elect to reset its cumulative translation adjustments, totaling \$2,068,103 at January 1, 2010, to zero at the Transition Date.
- [c] **Equipment** – IFRS provides the choice between measuring equipment at fair value at the date of transition and using those amounts as deemed cost or using the historical cost basis under Canadian GAAP. The Company will elect to use the historical cost carrying values for equipment as determined under Canadian GAAP, substantively equivalent to IFRS, for transitional purposes.

In addition to the IFRS 1 exemptions, the following are preliminary differences identified between the Company's Canadian GAAP accounting policies and those under IFRS, based on the Company's analysis to date:

- [a] **Impairment of equipment and intangible assets** - Canadian GAAP uses a two step approach to assess impairment, while under IFRS impairment testing is a one-step process. The Company does not expect any transitional adjustment as the Company has concluded that the recognized amount of its equipment and intangible assets is the same under IFRS and Canadian GAAP.
- [b] **Share-based payments** – Canadian GAAP allows each grant to be treated as a single arrangement and compensation expense to be determined at the time of grant and amortized over the vesting period on a straight-line basis. IFRS requires a separate calculation of compensation expense for grants that vest in instalments. Compensation expense recognition will therefore be accelerated under IFRS. The Company expects a

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

transitional adjustment of \$206,231 to increase both deficit and contributed surplus to reflect the increase in compensation expense required under IFRS.

Principles of consolidation

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

Use of estimates

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

Financial Instruments

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

Cash equivalents

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

Inventory

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

Allowance for doubtful accounts

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

Research and development

Research and development costs are expensed in the year incurred.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equipment

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

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

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

Leases

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

Intangible assets

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

Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually. Intangible assets are tested for impairment by comparing their carry values to the sum of the undiscounted cash flows expected to result from their use or eventual disposition. If not recoverable, the impairment charge is the difference between the carrying value and fair value.

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

Acquired software technology	1 year
Computer software	3 years
Customer relationships	1 year
Patent portfolio	1 year
Trademark and brand	1 year

Due to the change in estimates in the future economic life of the intangible assets, the amortization periods were reduced to one year to reflect the estimated future cash flows derived from the use of the intangible assets.

Revenue recognition

Revenues from Device Development Solutions 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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

these services based upon normal pricing and discounting practices for these services when sold separately. These services contracts are primarily time and material based contracts. Revenue from these services is recognized at the time such services are rendered by the Company so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

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

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

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

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

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

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Unbilled revenue

Unbilled revenue is included as a component of Accounts Receivable and represents revenue that has been recognized using the percentage of completion method of accounting less amounts billed to the customer in accordance with the

milestone terms of the contract. Unbilled revenue is reduced when customers are invoiced and the respective accounts receivable are recorded.

Share issue costs

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

Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in note 10. The Company accounts for all stock-based payments granted to employees and non-employees using the fair value based method in accordance with the CICA Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*" The expense is charged to operations as stock-based compensation with a corresponding credit to contributed surplus. In the event of an option forfeiture, any expense recognized to date on unvested options is reversed in the period in which the forfeiture occurs. Consideration paid by employees on the exercise of stock options is recorded as share capital and contributed surplus. The related amount accumulated in contributed surplus is reclassified to share capital.

Impairment of equipment

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

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."

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Loss per share

The loss per share is calculated by using the weighted average number of common shares outstanding during the period. If in a reporting period the Company has outstanding dilutive equity instruments, the diluted loss per share is calculated using the treasury stock method. Diluted per share amounts are the same as basic per share amounts as the effect of outstanding options and warrants is anti-dilutive for all periods presented.

Income taxes

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

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

3. RESTRICTED CASH

During 2008, as part of a settlement the Company had with one of its vendors, the Company agreed to pay \$603,258 (CDN \$600,000) cash as well as paying \$201,086 (CDN \$200,000) of the account by issuing the vendor 1,250,000 common shares at a price of \$0.16 (CDN \$0.16) for a total payment of \$804,344 (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 required orderly liquidation of the shares on a basis restricted to 25% of the total volume during any 6-month period unless previously approved by the Company. The Company guaranteed that a minimum of \$100,543 (CDN \$100,000) would be received from the sale of shares. As such, the Company placed \$100,543 (CDN \$100,000) in trust which would be released to the Company upon liquidation of such shares. In the event that the total proceeds from disposition were lower than \$100,543 (CDN \$100,000), such dispositions would be offset by payment from such funds held in trust. During the three months ended June 30, 2010, all 1,250,000 shares had been liquidated by the vendor for total proceeds of \$81,348 (CDN \$80,909). As such, the Company, during the three months ended June 30, 2010, received from the funds held in trust of \$81,348 (CDN \$80,909) with the balance of \$19,195 (CDN \$19,091) being paid to the vendor and expensed.

4. ACCOUNTS RECEIVABLE

	December 31, 2010	December 31, 2009
Trade and miscellaneous receivables	\$ 2,861,627	\$ 3,867,722
Less: Allowance for doubtful accounts	(153,390)	(655,766)
Unbilled revenue	283,770	189,511
	\$ 2,992,007	\$ 3,401,467

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

5. INTANGIBLE ASSETS

The following table presents details of movement in the net book value (“NBV”) of the intangible assets by type as at December 31, 2010:

	NBV at December 31, 2009	Amortization	Impairment	Foreign Exchange	NBV at December 31, 2010
Acquired software technology	\$ 3,319,772	(\$ 739,072)	(\$ 2,162,723)	\$ 122,023	\$ 540,000
Computer software	50,219	(36,301)	-	1,516	15,434
Customer relationships	152,197	(33,884)	(113,637)	5,324	10,000
Patent portfolio	304,391	(67,762)	(237,092)	10,463	10,000
Trademarks and brand	53,902	(21,119)	(29,091)	1,308	5,000
	\$ 3,880,481	(\$ 898,138)	(\$ 2,542,543)	\$ 140,634	\$ 580,434

The carrying value of intangible assets is inherently uncertain. The Company performed a recoverability analysis of the carrying values of the intangible assets during 2010 and concluded the value of its intangible assets to not be fully recoverable. A non-cash impairment charge of \$2,542,543 was recorded. Recoverability analysis requires the Company to make assumptions about the future and therefore, changes to one or more assumptions would result in a change in the recoverable amount calculated.

	NBV at December 31, 2008	Amortization	Disposal	Foreign Exchange	NBV at December 31, 2009
Acquired software technology	\$ 3,490,000	(\$ 672,038)	\$ -	\$ 501,810	\$ 3,319,772
Computer software	169,914	(75,878)	(57,616)	13,799	50,219
Customer relationships	160,000	(30,809)	-	23,006	152,197
Patent portfolio	320,000	(61,620)	-	46,011	304,391
Trademarks and brand	64,000	(19,202)	-	9,104	53,902
	\$ 4,203,914	(\$ 859,547)	(\$ 57,616)	\$ 593,730	\$ 3,880,481

6. EQUIPMENT

December 31, 2010	Cost	Accumulated depreciation	NBV
Computers and equipment	\$ 2,145,200	\$ 1,819,117	\$ 326,083
Furniture and fixtures	1,096,720	906,214	190,506
Leasehold improvements	608,018	574,662	33,356
	\$ 3,849,938	\$ 3,299,993	\$ 549,945

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

6. EQUIPMENT (cont'd)

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

Total amortization for the year ended December 31, 2010 and 2009 was \$291,885 and \$392,637, respectively. During the year ended December 31, 2010, the Company disposed of fully depreciated assets for cash proceeds of \$2,150. During the year ended December 31, 2009, the Company disposed of assets for cash proceeds of \$39,809 resulting in a loss of \$146,550.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

	December 31, 2010	December 31, 2009
Balance – beginning of period	\$ 2,068,103	(\$ 159,400)
Unrealized foreign currency translation gains	794,984	2,227,503
Balance – end of period	\$ 2,863,087	\$ 2,068,103

8. GOVERNMENT ASSISTANCE

[a] Industry Technology Office (formally Technology Partnerships Canada)

Under agreements with the Industry Technology Office (“ITO”), the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of approximately \$3.8 million (CDN \$3.8 million) in contributions during the term of the agreement. In exchange for these contributions, the Company has agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over CDN \$10.0 million until August 31, 2011.

The Company, on August 10, 2010, entered into an agreement to terminate its Technology Partnerships Canada (“TPC”) funding agreement. This termination agreement required an amount of CDN\$350,000 to be paid by the Company as full settlement of all amounts owing under the TPC funding agreement, inclusive of current and future royalty payments and future obligations as well as the elimination of the disputed claim of CDN \$929,183 (See Note 13[c] – Commitments and Contingencies). The Company recorded the amount payable under this termination agreement in the three month period ended June 30, 2010. As of December 31, 2010, the Company has paid CDN \$75,000 with CDN\$ 275,000 still outstanding to be paid as follows: CDN \$75,000 due December 31, 2011 and CDN \$200,000 due December 31, 2012. The long term portion of the settlement was discounted using a rate of 8% (as defined in the settlement agreement) with \$12,124 (CDN \$12,283) being recognized as interest expense.

[b] Industrial Research Assistance Program

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 agreed to reimburse the Company 75% of eligible supported salary costs up to a maximum of CDN \$132,000 to assist in the

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

8. GOVERNMENT ASSISTANCE (cont'd)

further development of its telephony software application until March 31, 2010. Any funding received would be recorded as a reduction of the related expense presented under "Research and development." During 2010 and 2009, expense reductions totalled \$38,967 (CDN \$38,756) and \$93,750 (CDN \$93,244), respectively. Cash received during 2010 and 2009 was \$66,229 (CDN \$65,871) and \$66,488 (CDN \$66,129). The agreement was completed as of March 31, 2010.

9. CAPITAL LEASE OBLIGATIONS

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

	December 31, 2010	December 31, 2009
Minimum lease payments	\$ 7,931	\$ 54,575
Interest at 1.4% per annum	(113)	(2,008)
Lease principal obligation	7,818	52,567
Current portion	(7,818)	(45,179)
Long-term portion	\$ -	\$ 7,388

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

2011	7,818
	\$ 7,818

10. SHARE CAPITAL

Authorized

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

	Number of common shares	Amount
Outstanding, December 31, 2008	163,254,903	\$ 108,288,133
Shares issued in connection with compensation options exercised	4,167	251
Non-cash transfer from contributed surplus of issue date fair value for options exercised	-	201
Outstanding, December 31, 2009	163,259,070	\$ 108,288,585
No transactions during the year	-	-
Outstanding, December 31, 2010	163,259,070	\$ 108,288,585

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, service providers and consultants 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;

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

10. SHARE CAPITAL (cont'd)

and, (ii) 30,000,000 shares. The plan provides for the granting of options at the closing price of the Company's stock on the day prior to the grant date. Options granted generally vest over three years with the first one-third vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five-year term. As of December 31, 2010, the Company was entitled to grant incentive stock options under the plan 16,325,906 of which 7,435,473 have been granted.

A summary of the Company's share option activity for the years ended December 31, 2010 and 2009 is as follows:

Outstanding options		
	Number of common shares	Weighted average exercise price (in Canadian dollars)
Outstanding, December 31, 2008	6,739,133	\$ 0.70
Options granted	6,312,500	0.08
Options exercised	(4,167)	0.07
Options forfeited/expired	(4,608,820)	0.52
Outstanding, December 31, 2009	8,438,646	\$ 0.34
Options granted	3,061,850	0.07
Options exercised	-	-
Options forfeited/expired	(4,065,023)	0.41
Outstanding, December 31, 2010	7,435,473	\$ 0.19

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

The following table summarizes the share options outstanding as at December 31, 2010:

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)
\$ 0.05 – \$ 0.15	6,138,824	3.75	\$ 0.07	2,930,579	\$ 0.08
\$ 0.16 – \$ 0.74	690,274	1.93	\$ 0.58	611,840	\$ 0.57
\$ 0.75 – \$ 0.90	272,500	1.99	\$ 0.78	267,540	\$ 0.78
\$ 0.91 – \$ 1.26	333,875	1.72	\$ 0.95	333,875	\$ 0.95
	7,435,473	3.43	\$ 0.19	4,143,834	\$ 0.27

The weighted average fair value of stock options granted during the year ended December 31, 2010 was CAD \$0.06 per share [December 31, 2009 – CAD \$0.07]. 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:

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

10. SHARE CAPITAL (cont'd.)

	Year ended December 31, 2010	Year ended December 31, 2009
Expected life (in years)	4.0	4.0
Risk-free interest rate	2.70%	2.08%
Volatility	125.99%	127.50%
Dividend yield	0.00%	0.00%

Warrants and underwriters' options

A summary of the Company's share purchase warrants and underwriters' options for the years ended December 31, 2010 and December 31, 2009 is as follows:

Outstanding warrants and underwriters' options			
	Number of warrants and underwriters' compensation options	Weighted average exercise price (in Canadian dollars)	Amount
Outstanding, December 31, 2008	18,016,570	\$ 0.95	\$ 4,489,508
Compensation options and warrants expired	(1,819,295)	0.60	(459,555)
Outstanding, December 31, 2009	16,197,275	\$ 0.99	\$ 4,029,953
Compensation options and warrants expired	(16,197,275)	0.99	(4,029,953)
Outstanding, December 31, 2010	-	\$ -	\$ -

11. CONTRIBUTED SURPLUS

	December 31, 2010	December 31, 2009
Balance – beginning of period	\$ 5,230,217	\$ 4,260,625
Transfer to common share capital of issue date fair value for options exercised (<i>note 10</i>)	-	(201)
Transfer from warrants and underwriters' options for expired compensation (<i>note 10</i>)	4,029,953	459,555
Stock-based compensation expense	239,561	510,238
Balance – end of period	\$ 9,499,731	\$ 5,230,217

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

12. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 28.5% [December 31, 2009 – 30.0%] to loss before income taxes due to the following:

	December 31, 2010	December 31, 2009
Combined Canadian federal and provincial income taxes		
at expected rate	(\$ 1,293,312)	(\$ 900,859)
Change in valuation allowance	(634,199)	570,179
Permanent and other differences	1,186,530	(1,633,190)
Foreign income taxed at other rates	167,825	438,344
Non-capital losses expired	502,740	876,081
Adjustment to future income tax assets and liabilities		
for enacted changes in tax laws and rates	-	383,950
	(\$ 70,416)	(\$ 265,495)

The composition of the Company's future tax assets and liabilities as at December 31, 2010 and December 31, 2009 is as follows:

	December 31, 2010	December 31, 2009
Future income tax assets:		
Equipment and intangible assets	\$ 4,941,177	\$ 427,550
Loss carry forwards	5,668,775	10,914,416
Share issue costs	259,153	508,209
SR&ED pool	1,140,887	1,079,695
Other	310,775	534,021
Non-capital losses expired	12,320,767	13,463,891
Valuation allowance	(12,320,767)	(13,463,891)
Net future income tax liability	\$ -	\$ -

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

As at December 31, 2010, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately \$15,622,000 available to reduce taxable income otherwise calculated in future years. These losses expire as follows:

2014	1,120,000
2026	3,754,000
2027	7,696,000
2028	3,052,000
	\$ 15,622,000

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

12. INCOME TAXES (cont'd)

The Company also has approximately \$4,564,000 of scientific research and experimental development expenditures that may be carried forward indefinitely to be deducted against future Canadian taxable income, and federal investment tax credits of approximately \$1,806,000 available to offset future Canadian federal income taxes payable as well as provincial investment tax credits of \$1,002,000. The investment tax credits expire commencing in 2020 until 2026. The benefit of the investment tax credits has not been recognized as the realization is not reasonably assured.

At December 31, 2010, the Company also has loss carry forwards in other jurisdictions as a result of its foreign operations. For U.S. income tax purposes, there are non-capital loss carry forwards totalling approximately \$93,000 that expire beginning in 2030. For UK income tax purposes, there are non-capital loss carry forwards totalling approximately \$2,225,000 that may be carried forward indefinitely to reduce taxable income otherwise calculated in future years. As well, it has non-capital loss carry forwards in Israel of approximately \$1,052,000 and capital losses of approximately \$249,000 that may be carried forward indefinitely and non-capital losses in China of approximately \$6,576,000 that expire beginning in 2011.

13. COMMITMENTS AND CONTINGENCIES

[a] The Company has lease commitments for office premises until 2015. The aggregate of minimum lease payments as at December 31, 2010 in each of the next five years are approximately as follows:

2011	565,673
2012	359,119
2013	359,119
2014	359,119
2015	329,193
	<hr/>
	\$ 1,972,223

[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 of \$129,926 (CDN\$129,224) as at December 31, 2007 as management determined that future sales under this agreement were unlikely. No payment had been made as of December 31, 2010.

[c] The Company previously received correspondence from the ITO 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 disputed the validity of the claim by TPC of these amounts.

The Company, on August 10, 2010, entered into an agreement to terminate its TPC funding agreement. This termination agreement required an amount of CDN\$350,000 to be paid by the Company as full settlement of all amounts owing under the TPC funding agreement, inclusive of current and future royalty payments and future obligations as well as the elimination of the disputed claim of CDN \$929,183 (see above). The Company had recorded the amount payable under this termination agreement in the prior three month period ended June 30, 2010. As of December 31, 2010, the Company has paid CDN \$75,000 with CDN\$ 275,000 still outstanding to be paid as follows: CDN \$75,000 due December 31, 2011 and CDN \$200,000 due December 31, 2012.

[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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

13. COMMITMENTS AND CONTINGENCIES (cont'd)

of the warranties are generally ninety days. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

- [e] The Company 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.

14. EXPORT DEVELOPMENT CANADA

On July 31, 2009, the Company entered into an agreement with Export Development Canada ("EDC") whereby EDC agreed to provide insurance for the Company's invoiced sales for a premium of anywhere from CDN \$0.22 to CDN \$0.90 per CDN \$100 of monthly invoiced sales (certain customers are excluded from this coverage). The policy period was from July 1, 2009 to June 30, 2010 with an automatic renewal unless the policy is terminated by the Company (the policy was renewed for another year until June 30, 2011). The maximum liability coverage at any one time is CDN \$60,000 for domestic sales and CDN \$1,600,000 for sales outside of Canada. During 2010, the Company recorded total premiums of CDN \$30,306 in sales and marketing (2009 – CDN \$23,584). As of December 31, 2010, a total of \$5,111 (CDN \$5,083) in premiums were outstanding.

15. SEGMENTED INFORMATION

Operating segments

The Company operates in two segments:

1. Software Solutions segment including the revenue and operations of the Company's own software products consisting of Destinator[®], RapidRIL[™], Soleus[®] and J-Integra[®] Enterprise Interoperability Software product lines;
2. Device Development Solutions segment includes the Company's engineering workforce, which generates revenue by contracting its engineering expertise to third parties;
3. Other which includes revenue generated by the Company's legacy hardware business and the Company's unallocated expenses.

A breakdown of revenues, cost of sales and operating expenses for each reportable segment for the years ended December 31, 2010 and December 31, 2009 is as follows:

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15. SEGMENTED INFORMATION (cont'd.)

Year ended December 31, 2010	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 3,917,180	\$ 7,932,367	\$ 862,743	\$ 12,712,290
Cost of sales	479,806	4,456,147	494,743	5,430,696
Gross margin	3,437,374	3,476,220	368,000	7,281,594
Operating expenses	4,813,995	-	6,789,627	11,603,622
Operating profit (loss)	(\$ 1,376,621)	\$ 3,476,220	(\$ 6,421,627)	(\$ 4,322,028)

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

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

Geographic information

The Company's equipment is located as follows:

	December 31, 2010	December 31, 2009
Canada	\$ 385,619	\$ 547,046
Asia	164,326	188,761
Total	\$ 549,945	\$ 735,807

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

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Notes to Consolidated Financial Statements

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15. SEGMENTED INFORMATION (cont'd.)

	Year ended December 31, 2010	Year ended December 31, 2009
United States	\$ 8,668,482	\$ 11,054,200
Latin America	1,227,117	1,061,808
Asia	1,151,522	1,492,848
Europe	1,012,937	3,291,035
Canada	468,233	251,694
Other	183,999	333,489
	\$ 12,712,290	\$ 17,485,074

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 and accounts receivable, as indicated below:

	% of Revenues for the year ended December 31, 2010	% of Accounts Receivable at December 31, 2010	% of Revenues for the year ended December 31, 2009	% of Accounts Receivable at December 31, 2009
Customer 1	26%	18%	23%	15%
Customer 2	9%	17%	-%	-%
Customer 3	8%	10%	-%	-%
Customer 4	-%	-%	8%	-%
Customer 5	-%	-%	7%	-%
Total	43%	45%	38%	15%

For the year ended December 31, 2010, revenues earned from Customers 1, 2 and 3 related to Device Development Solutions. For the year ended December 31, 2009, revenues earned from Customers 1 and 4 related to Device Development Solutions while revenues earned from Customer 5 related to Software Solutions.

16. RESTRUCTURING

On December 1, 2008, the Company announced restructuring initiatives to reduce operating costs. As of December 31, 2009, all that remained were future lease commitments of office space which were redundant (these commitments were \$nil as of December 31, 2010). On February 8, 2010 the Company announced an additional restructuring plan to further reduce its cost structure, and made changes in its management, designed to improve operational efficiency and effectiveness and incurred severance costs of \$485,478.

The following table summarizes the expenses recorded by the Company as at December 31, 2010:

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(Expressed in U.S. dollars)

16. RESTRUCTURING (cont'd)

	Employee Related Costs	Loss on Disposal of Equipment	Office Related Costs	Total
Balance at December 31, 2008	\$ 382,855	\$ 13,190	\$ 947,439	\$ 1,343,484
Settlements	(382,855)	(13,190)	(900,181)	(1,296,226)
Balance at December 31, 2009	\$ -	\$ -	\$ 47,258	\$ 47,258
Charges	485,478	-	-	485,478
Settlements	(461,678)	-	(47,258)	(508,936)
Balance at December 31, 2010	\$ 23,800	\$ -	\$ -	\$ 23,800

The balance as at December 31, 2010 includes future employee related payments which were paid in early 2011.

17. CAPITAL DISCLOSURES

The Company's objectives for managing capital are as follows:

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

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

As at December 31, 2010, the shareholders' equity of the Company was \$12,612,143 [December 31, 2009 - \$16,045,119].

18. FINANCIAL INSTRUMENTS

[a] Financial assets and liabilities

The carrying values and fair values of financial assets and liabilities as at December 31, 2010 and December 31, 2009 are summarized as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-for-trading	\$ 11,152,439	\$ 11,152,439	\$ 11,710,227	\$ 11,710,227
Loans and receivables	\$ 2,992,007	\$ 2,992,007	\$ 3,401,467	\$ 3,401,467
Other liabilities	(\$ 2,424,492)	(\$ 2,424,492)	(\$ 3,626,701)	(\$ 3,626,701)

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

18. FINANCIAL INSTRUMENTS (cont'd)

[b] Fair Value Disclosure

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

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates fair value due to the short-term maturity of these instruments. The carrying value of capital lease obligations approximate their fair value given that the interest rates inherent in the leases reflect rates currently available for leases with similar terms and maturities.

The three levels of the fair value hierarchy are:

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

At December 31, 2010, the Company's financial instruments which are measured at fair value on a recurring basis were cash and cash equivalents. These financial instruments were classified as "Level 1" financial instruments.

[c] Risk Management

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

[i] Credit Risk

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

As at December 31, 2010 and December 31, 2009, the Company's exposure to credit risk for these financial instruments was as follows:

	December 31, 2010	December 31, 2009
Cash and cash equivalents	\$ 11,152,439	\$ 11,710,227
Accounts receivable	2,992,007	3,401,467
	\$ 14,144,446	\$ 15,111,694

Accounts receivable was aged as follows as at December 31, 2010 and 2009:

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18. FINANCIAL INSTRUMENTS (cont'd)

	December 31, 2010	December 31, 2009
Current	\$ 2,507,325	\$ 3,211,666
31-60 days	399,352	162,947
Over 60 days	85,330	26,854
	\$ 2,992,007	\$ 3,401,467

Accounts payable was aged as follows as at December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Current	\$ 2,124,956	\$ 3,320,060
31-60 days	32,902	101,847
Over 60 days	7,093	152,227
	\$ 2,164,951	\$ 3,574,134

[ii] Liquidity Risk

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

[iii] Foreign Currency Risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding indebtedness denominated in Canadian dollars as well as a number of foreign currencies. The Company incurs certain research and development expenses in the United States and China. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company attempts to mitigate this risk by denominating many of its payment obligations in U.S. dollars. A 10% change in the U.S. to Canadian dollar exchange rate on the December 31, 2010 balances would have an approximate \$430,000 impact on net income. A 10% change in the Chinese yuan to Canadian dollar exchange rate on the December 31, 2010 balances would have an approximate \$21,000 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 December 31, 2010, the Company did not have any outstanding foreign exchange contracts nor did the Company enter into any foreign exchange contracts during the respective years 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 \$1.3 million to other comprehensive income.

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Notes to Consolidated Financial Statements

(Expressed in U.S. dollars)

18. FINANCIAL INSTRUMENTS (cont'd)

[iv] Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily interest earned on its cash and cash equivalents. The Company has performed sensitivity analysis on interest rate risk at December 31, 2010 to determine how a change in interest rates would impact equity and net earnings. During the year ended December 31, 2010, the Company earned \$61,350 of interest income on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased or decreased net earnings by approximately \$108,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

19. 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.