

# **INTRINSYC SOFTWARE INTERNATIONAL, INC.**

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

**For the Three Months and Year ended December 31, 2010**

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

This Management's Discussion and Analysis has been prepared by management as of March 23, 2011 and should be read in conjunction with the audited consolidated financial statements of Intrinsyc Software International, Inc. (the "Company" or "Intrinsyc") and related notes thereto for the year ended December 31, 2010, which were prepared in accordance with Canadian generally accepted accounting principles. Comparative figures as at and the year ended December 31, 2010 are also provided. All amounts are presented in United States (U.S.) dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at [www.sedar.com](http://www.sedar.com).

### **DISCLAIMER FOR 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. Such forward-looking statements or information includes 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 reading this AIF 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 its customers' requirements; the possibility of development or deployment difficulties or delays; the dependence on its customers' satisfaction; the timing of entering into significant contracts; its customers' continued commitment to the deployment of the Company's solutions; the risks involved in developing integrated software solutions and integrating them with third-party products and services; the performance of the global economy and growth in software industry sales; market acceptance of the Company's products and services; customer and industry analyst perception of the Company and its technology vision and future prospects; 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 acquisitions and international expansion; reliance on large customers; concentration of sales; international operations and sales; management of growth and expansion; dependence upon key personnel and hiring; reliance on a limited number of suppliers; risks related to the Company's competition; the Company's not adequately protecting its intellectual property; risks related to product defects and product liability; currency exchange rate risk; and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2010, and those referred to under the heading "Risk Factors". In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. 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 made in this Management's Discussion and Analysis 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**

The Company provides solutions for mobile device development and navigation/location based services (“LBS”) applications that enable and enhance next-generation handheld products, including smart phones, and other mobile and embedded devices. The Company’s LBS products include Destinator® navigation and LBS application, and ToBe™ Gateway Server for delivering content services based on location. The Company’s other products include: J-Integra®, iQ Wireless Development Kit, RapidRIL™ Telephony, Soleus® and Remote Device Management middleware and other software and enabling technology for mobile device development. These products combined with award winning engineering services, help device makers and silicon vendors deliver compelling mobile products with faster time-to-market and improved innovation and quality. The Company is a Microsoft Windows® Embedded Gold Partner and members of the QNX Partner Network and Linux Foundation. The Company is currently focused on providing mobile device development solutions for the Android operating system with several customer engagements in this area.

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 10th Floor, 700 West Pender Street, Vancouver, British Columbia, V6C 1G8, telephone (604) 801-6461, fax (604) 801-6417 and its registered office is Suite 800, 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1. The Company is listed on the Toronto Stock Exchange (“TSX”) under the trading symbol ICS.

## **CORPORATE SUMMARY**

The Company provides proprietary software, hardware, and services for the growing market of mobile handheld products, which includes consumer mobile handsets, personal navigation devices, smart phones, eReaders, and other mobile and embedded devices. Device development software is sold on a licensed basis and software engineering services is sold through time and materials and fixed-fee payment models, with an occasional royalty component. Hardware platforms are sold on a per unit basis. The Company offers navigation and LBS solutions to Original Equipment Manufacturers (OEMs) and mobile application stores on a one-time fee, perpetual license basis, or through a monthly subscription. Some customers purchase licenses prior to the sale of their devices and some customers provide monthly or quarterly reports.

The Company’s solutions for Device Development include the RapidRIL telephony software, RDU (Remote Device Update), iQ Wireless Development Kit, and other enabling technology, testing tools, hardware reference designs and platforms, and engineering services. These products and services are sold to, original equipment manufacturers (“OEMs”), original device manufacturers (“ODMs”), software and silicon providers and mobile network operators.

The Company’s navigation and LBS solutions are sold to OEMs, and ODMs, who deploy mobile products such as consumer mobile handsets and personal navigation devices (“PNDs”) and direct to consumers through application stores.

The Company’s products and engineering services generate value for its customers by simplifying complex mobile technology development, thereby allowing increased flexibility and innovation in design, which in turn enables a more rapid response to the demand for new features or services from end users. The Company has strategically positioned its product and service offerings to capitalize on the anticipated growth in complex mobile devices like smart phones, Mobile Internet Devices (MIDs), media tablet devices, eReaders, industrial handhelds, navigation devices, and wireless embedded devices. Recently the Company has embarked on initiatives to expand into the automotive and machine-to-machine (M2M) communications markets with new technology partnerships, alliances, and solutions. The Company believes these markets will provide increased demand for its products and services.

The Company markets its products and services on a worldwide basis through an experienced sales and business development team based in Canada and the United States.

In July 2008, the Company acquired certain assets and operations inclusive of wholly owned China and Israel subsidiaries of Destinator Technologies Inc. (“Destinator”), a multinational developer of wireless software for global

positioning system (“GPS”) devices and navigation software for wireless handsets. This transaction expanded the Company’s mobile software product portfolio with the addition of a navigation software application. Subsequently, the Beijing development center was used for cost effective delivery of engineering services, and support of regional customers complementing the Company’s Device Development Solutions.

## **SIGNIFICANT EVENTS FOR 2010**

### **Financial Events**

- Revenue decrease of 27% from the year ended December 31, 2009 which was primarily attributable to lower revenues attributable to the Company’s Software Solutions (Destinator navigation software and J-Integra enterprise interoperability software), Hardware and Device Development Solutions. Destinator navigation software was negatively impacted by the introduction of “free” turn-by-turn” navigation from Google, Microsoft, and Nokia during the year. Revenue from Device Development Solutions would have increased from 2009 except that the outsourced development services provided to Symbian ceased, as a result of the decision by Symbian to cease marketing the Symbian OS as a commercial product after the acquisition of Symbian by Nokia in early 2009.
- Operating expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Restructuring, Asset Impairment and Loss (gain) on disposal of equipment)<sup>1</sup> reduced by 32% from the year ended December 31, 2009. The decrease for the year ended December 31, 2010 over the prior year is the result of continued prudent cost management resulting in increased operating efficiencies in the year ended December 31, 2010.
- The net loss for the year ended December 31, 2010 was \$4,467,521 compared to the net loss during the year ended December 31, 2009 of \$2,930,105 with the change primarily attributable to an intangible asset impairment charge of \$2,542,543. The net loss, exclusive of the intangible asset impairment charge was \$1,924,978 which is a reduction of 34% from the prior year.
- Cash used in operations decreased by 53% during the year ended December 31, 2010 (from approximately \$2.3 million during the year ended December 31, 2009 to \$1.1 million during the year ended December 31, 2010).
- EBITDA<sup>2</sup> of \$420,619 for the year ended December 31, 2010 compared to EBITDA of (\$293,460) for the year ended December 31, 2009. The improved EBITDA was due primarily to improved margins attributable to the Company’s Device Development Solutions and operational efficiencies.
- Entered into an agreement to terminate its Technology Partnerships Canada (“TPC”) funding agreement which requires 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.
- Seven consecutive quarters of achieving positive EBITDA.

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<sup>1</sup> Operating expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Restructuring, Asset Impairment and Loss (gain) on disposal of equipment) is a non-generally accepted accounting principle (“GAAP”) measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure and is used by the Company to manage and evaluate the operating performance of the Company.

<sup>2</sup> EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non- GAAP measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here relates to Earnings before Amortization, Stock-based compensation, Technology Partnerships Canada (“TPC”) Funding Investment, Asset Impairment, Restructuring, and Loss (gain) on disposal of equipment. This measure does not have a comparable GAAP measure and is used by the Company to manage and evaluate the operating performance of the Company.

## **Major Management and Director Changes**

- Robert Gayton resigned as a director effective February 3, 2010. Dr. Gayton had been a director since 1997. He previously served as the Company's lead independent director and in the past year was a member of the audit committee and corporate governance and nominating committee. Gary Koerper, former Vice President of Engine Systems, Motorola Inc. and currently Senior Vice President of Comcast Corporation, replaced Dr. Gayton on the board of directors.
- In February 2010, implemented a restructuring plan to reduce its cost structure, and changes in its management, designed to improve operational efficiency and effectiveness. The staff reductions included the departure of executives, David Manuel, Vice President and General Manager, Device Development Solutions, and Souheil Gallouzi, Vice President and General Manager, Mobile Product Development.

## **Marketing Highlights**

- Became a member in the GENIVI Alliance, a consortium of vendors supporting open platform for automotive infotainment. The Company, a highly experienced participant in the smartphone and consumer device development arena will be active in the Alliance ecosystem, providing software and services to automotive manufacturers and suppliers.
- Launched Destinator 9 application for the Apple iPhone™ in North American, China, Western Europe, Australia and New Zealand.
- Launched Destinator 9 application for the Apple iPhone which will be sold in Brazil under the brand, Apontador Navegador™, by Apontador.
- Launched Windows Mobile and Android versions of Destinator into the UK, Australia and Western Europe markets.
- Demonstrated its latest Android RapidRIL on ZiiLABS' cellular Development Kit at Mobile World Congress.

## **Customer Highlights**

- Signed a long-term agreement with Movix that provides Movix with access to the Company's core navigation assets in source code form and enables Movix to sublicense to other navigation and location based service providers throughout Latin America. In addition to collaboration on future innovation, the Company and Movix will work together to customize solutions for Spanish and Portuguese speaking markets.
- Signed a software license agreement with Sierra Wireless for RapidRIL telephony technology. Sierra Wireless will integrate the Company's RapidRIL software into its market leading cellular embedded modules for use in eReaders, tablets and other mobile wireless devices.
- Signed an engineering services agreement with Advanced Systems Research Technology Corporation (ASRT) to develop a tablet device designed for the education market in Asia.
- Signed a long-term Destinator licensing agreement with MLS Multimedia SA. MLS will integrate Destinator with their Talk and Drive technology for markets in Europe and other regions.
- Licensed RapidRIL telephony software to Tattu Mobile for integration in an Android based wireless tablet device. As well, signed an engineering services and software license agreement (SLA) to support the development of an Android Tablet device.
- Signed a RapidRIL license and engineering services agreement with an industry leading silicon vendor. The Company's software and services will accelerate development and availability of the company's next generation mobility solutions.
- Signed four new Destinator licensees: Nanovision, for an in-dash navigation system in an electric automobile from Coda Automotive, SP by Design, Rydeen Mobile Electronics, and Echomaster for use in personal navigation devices.

- Selected by Leica Geosystems Agriculture, a pioneer of innovative precision farming tools, to power the turn-by-turn functionality in the new Leica mojoMINI portable guidance solution.
- Signed an annual agreement to provide Device Development Solutions to Barnes & Noble for future mobile devices through the first quarter of 2011.
- Signed a software and services agreement with an Original Design Manufacturer (“ODM”) in Asia that provided significant royalties in the second half of 2010 and will continue to generate royalties at a reduced rate in 2011.

### Partner Highlights

- Signed an agreement with Qualcomm and completed the development of the iQ Wireless Development Kit. The Company’s iQ Development Kit provides developers utilizing Qualcomm’s compact and powerful Internet of Everything Modules with a low cost, high performance development platform for creating real-time, location aware solutions.
- Announced it will offer a complete software reference design platform based on Freescale Semiconductor’s i.MX53 chipset. This platform is a solution for a variety of consumer applications such as: tablets, smartbooks, gaming devices, video enabled IP phones, and more. Availability is expected in the second quarter of 2011.
- Announced an alliance to integrate GyPSii’s award-winning social media and contextual advertising/coupon functionality into the Destinator navigation application for smart phones. The combination of the two heralds a first for the mobile navigation segment with the full integration of social media features into a mobile turn-by-turn navigation application.
- Announced an alliance with MIPS® technology to bring 3.5G functionality to the MIPS architecture. The companies are porting the Company’s RapidRIL software to the MIPS architecture in order to accelerate mobile SoC development for MIPS licensees around the globe.

### Technological Highlights

- Established user interface (UI) and Application Center of Excellence, based in Beijing, China, which will support OEM and ODM customers with development of innovative UIs and applications with Microsoft Silverlight 4.
- Announced the immediate availability of a commercial-grade, open market Radio Interface Layer (RIL) software for mobile devices utilizing the Android operating system and Sierra Wireless series 8 modems.

## SELECTED QUARTERLY INFORMATION (UNAUDITED)

The information in the table below has been derived from the Company’s unaudited interim consolidated financial statements. The Company’s quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

#### Balance Sheets

<i>(in US\$ '000's)</i>	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Cash and cash equivalents	\$11,152	\$10,372	\$10,251	\$12,100	\$11,710	\$11,069	\$10,604	\$10,744
Working capital	\$11,616	\$11,206	\$10,939	\$11,086	\$11,294	\$11,012	\$9,935	\$8,933
Total assets	\$15,508	\$17,971	\$17,575	\$19,417	\$20,198	\$20,784	\$20,183	\$20,924
Other long term financial liabilities	\$179	\$239	\$226	\$-	\$7	\$14	\$21	\$77
Shareholders' equity	\$12,612	\$14,924	\$14,750	\$15,712	\$16,045	\$15,979	\$14,755	\$14,160

## Statements of Operations

(in US\$ '000's, except (earnings per share))	Three months ended	Three months ended	Three months ended	Three months ended	Three months ended	Three months ended	Three months ended	Three months ended
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenue	\$2,936	\$3,244	\$3,024	\$3,507	\$3,854	\$4,355	\$4,875	\$4,401
Cost of goods sold	1,080	1,462	1,498	1,391	1,542	1,771	2,145	2,281
Gross margin	1,856	1,782	1,526	2,116	2,312	2,584	2,730	2,120
Expenses								
Sales and marketing	491	484	399	615	707	750	745	1,144
Research and development	313	478	639	841	1,133	939	1,141	1,363
Administration	809	757	478	557	157	623	534	804
Amortization	324	287	291	289	288	306	339	319
Stock-based compensation	58	65	59	58	149	168	109	85
Technology Partnerships Canada								
Funding Investment	-	-	281	5	-	64	143	135
Asset impairment	2,542	-	-	-	-	-	-	-
Restructuring	-	-	-	485	-	-	-	-
Loss (gain) on disposal of equipment	-	-	-	(2)	24	(40)	200	21
Total operating expenses	4,537	2,071	2,147	2,848	2,458	2,810	3,211	3,871
Loss before other items and income taxes	(2,681)	(289)	(621)	(732)	(146)	(226)	(481)	(1,751)
Other items	153	110	(240)	192	304	126	314	(152)
Loss before income taxes	(2,834)	(399)	(381)	(924)	(450)	(352)	(795)	(1,599)
Income tax expense	-	(1)	(71)	2	(69)	(136)	(86)	25
Net loss	(\$2,834)	(\$398)	(\$310)	(\$926)	(\$381)	(\$216)	(\$709)	(\$1,624)
Loss per share	(\$0.02)	\$0.00	\$0.00	(\$0.01)	\$0.00	\$0.00	(\$0.01)	(\$0.01)

## FINANCIAL RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 (UNAUDITED)

The following analysis of the results of operations for the three months ended December 31, 2010 includes comparisons to the three months ended December 31, 2009.

### Revenue

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

- Device Development Solutions 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, RapidRIL, Soleus and J-Integra Enterprise Interoperability Software ("EIS") product offerings; and
- Hardware sales.

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

<i>Revenue by Source</i>	<b>Three months ended December 31, 2010</b>	<b>%</b>	<b>Three months ended December 31, 2009</b>	<b>%</b>	<b>Change</b>
Device Development Solutions	\$2,409,513	82%	\$1,622,334	42%	49%
Software Solutions	510,141	17%	2,003,355	52%	(75%)
Hardware	16,982	1%	228,617	6%	(93%)
<b>Total revenue</b>	<b>\$2,936,636</b>	<b>100%</b>	<b>\$3,854,306</b>	<b>100%</b>	<b>(24%)</b>

Revenue for the three months ended December 31, 2010 decreased by 24% from the three months ended December 31, 2009 with the decrease attributable to lower revenues attributable to the Company's Software Solutions and hardware businesses offset by increased revenues from Device Development Solutions.

Device Development Solutions revenue for the three months ended December 31, 2010 was approximately \$2.4 million, compared to approximately \$1.6 million for the three months ended December 31, 2009 due primarily to the increase in the number of projects the Company was engaged in.

Total revenues attributable to the Company's Software Solutions decreased by 75% during the three months ended December 31, 2010 compared to the same period in 2009. These decreases over the prior periods were primarily due to lower sales of the Destinator navigation software as well as Soleus and EIS products.

Total revenues attributable to the Company's Software Solutions decreased to 17% of total revenues during the three months ended December 31, 2010 compared to 52% for the three months ended December 31, 2009.

Hardware revenue was \$16,982 in the three months ended December 31, 2010 accounting for 1% of total revenue compared to \$228,617 or 6% of total revenue for the three months ended December 31, 2009 due to decreased sales from existing customers.

To date, the Company has had a significant portion of its revenue derived from engineering services provided to its largest customers. While the Company continues to focus its efforts on expanding to new markets and developing revenue from new software and hardware solutions, 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 December 31, 2010</b>	<b>Three months ended December 31, 2009</b>	<b>Change</b>
Revenue	\$1,369,984	\$1,888,022	(27%)
<b>Percentage of total revenue</b>	<b>47%</b>	<b>49%</b>	

The three customers accounting for 47% of the total revenue for the three months ended December 31, 2010 were not the same three customers that accounted for 49% for the three months ended December 31, 2009.

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

	Three months ended December 31, 2010		Three months ended December 31, 2009		Change
		%		%	
United States	\$1,992,868	68%	\$2,614,063	68%	(24%)
Asia	351,138	12%	162,573	4%	116%
Canada	306,802	10%	67,089	2%	357%
Europe	246,698	8%	546,782	14%	(55%)
Latin America	14,413	1%	422,654	11%	(97%)
Other	24,717	1%	41,145	1%	(40%)
	<b>\$2,936,636</b>	<b>100%</b>	<b>\$3,854,306</b>	<b>100%</b>	<b>(24%)</b>

For the three months ended December 31, 2010, the Company's generated the majority of its revenue from the United States, Canadian and Asian markets. For the three months ended December 31, 2009, the Company's generated the majority of its revenue from the United States, Latin American and European market.

### Gross Margin

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

	Three months ended December 31, 2010		Three months ended December 31, 2009		Change
		%		%	
Revenues	\$2,936,636	100%	\$3,854,306	100%	(24%)
Cost of sales	1,080,154	37%	1,542,204	40%	(30%)
<b>Gross margin</b>	<b>\$1,856,482</b>	<b>63%</b>	<b>\$2,312,102</b>	<b>60%</b>	<b>(20%)</b>

The increase in gross margin percentage over the prior period is due to an increase in royalties related to an engineering project delivered earlier in the year.

### Operating Expenses

	Three months ended December 31, 2010	Three months ended December 31, 2009	Change
Sales and marketing	\$ 490,591	\$ 706,946	(31%)
Research and development	313,155	1,133,457	(72%)
Administration	808,834	156,761	416%
Amortization	323,562	287,641	12%
Stock-based compensation	57,771	148,956	(61%)
Asset impairment	2,542,543	-	100%
Loss (gain) on disposal of equipment	-	23,631	N/A
<b>Total operating expenses</b>	<b>\$4,536,456</b>	<b>\$2,457,392</b>	<b>85%</b>
<b>As a percentage of total revenue</b>	<b>154%</b>	<b>64%</b>	

The increase in total operating expenses was due to a write down of the intangible assets of approximately \$2.5 million offset by decreased costs in sales and marketing as well as research and development. This decrease was offset by increase in administration costs. As well, in 2009, the Company incurred a reversal of value added taxes by the Chinese subsidiary prior to the Destinator acquisition in 2008. This reversal resulted in a decrease in administration expenses of approximately \$180,000.

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

	Three months ended December 31, 2010	Three months ended December 31, 2009	Change
Sales and marketing	\$ 490,591	\$ 706,946	(31%)
Research and development	313,155	1,133,457	(72%)
Administration	808,834	156,761	416%
<b>Total operating expenses</b>	<b>\$ 1,612,580</b>	<b>\$ 1,997,164</b>	<b>(19%)</b>
<b>As a percentage of total revenue</b>	<b>55%</b>	<b>52%</b>	

Sales and marketing costs decreased by approximately \$216,000 and research and development costs decreased by approximately \$820,000 offset by an increase in administration expenses of approximately \$652,000 during the three months ended December 31, 2010.

**Sales and Marketing**

	Three months ended December 31, 2010	Three months ended December 31, 2009	Change
Sales and marketing	\$ 490,591	\$ 706,946	(31%)
<b>As a percentage of total revenue</b>	<b>17%</b>	<b>18%</b>	

The Company maintains a direct sales force, with staff in the United States and Canada which supports the worldwide sales and marketing 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.

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

**Research and Development**

	Three months ended December 31, 2010	Three months ended December 31, 2009	Change
Research and development	\$ 313,155	\$ 1,133,457	(72%)
<b>As a percentage of total revenue</b>	<b>11%</b>	<b>29%</b>	

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

The decrease in research and development costs during the three months ended December 31, 2010 over the prior year was attributable largely to a lower headcount. The Company had a total of 11 employees in its research and development department as at December 31, 2010 compared to 61 as at December 31, 2009.

## Administration

	Three months ended December 31, 2010	Three months ended December 31, 2009	Change
Administration	\$ 808,834	\$ 156,761	416%
<b>As a percentage of total revenue</b>	<b>28%</b>	<b>4%</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.

The increase was primarily due to additional professional fees and related expenses pertaining to strategic consulting and IFRS transition services performed during the three months ended December 31, 2010. Further, during the same period in 2009, the Company incurred a reversal of value added taxes by the Chinese subsidiary prior to the Destinator acquisition in 2008. This reversal resulted in a decrease in administration expenses of approximately \$180,000.

## EBITDA

Earnings before amortization, stock-based compensation, TPC funding investment, asset impairment, restructuring and loss (gain) on disposal of equipment ("EBITDA") was approximately \$244,000 for the three months ended December 31, 2010 compared to approximately \$315,000 for the three months ended December 31, 2009.

	Three months ended December 31, 2010	Three months ended December 31, 2009
Loss before other expense (earnings) and income taxes	(\$2,679,974)	(\$145,290)
Less: Amortization	323,562	287,641
Less: Stock-based compensation	57,771	148,956
Less: TPC Funding Investment	-	-
Less: Asset impairment	2,542,543	-
Less: Restructuring charges	-	-
Less: Loss (gain) on disposal of equipment	-	23,631
<b>EBITDA</b>	<b>\$ 243,902</b>	<b>\$314,938</b>

The decrease in EBITDA was primarily due to lower revenues and higher administrative expense, offset by reduced operational expenses in other areas.

## Other Items

	Three months ended December 31, 2010	Three months ended December 31, 2009
Foreign exchange loss	\$163,524	\$164,075
Interest income	(9,440)	(25,515)
Extraordinary expenses	-	166,171
<b>Other items</b>	<b>\$154,084</b>	<b>\$304,731</b>

Net other loss for the three months ended December 31, 2010 was attributable to a foreign exchange loss of \$163,524 offset by interest income of \$9,440. Net other loss for the three months ended December 31, 2009 was attributable to a foreign exchange loss of \$164,075 and a reclassification to income taxes of \$166,171 pertaining to the reversal during the third quarter of withholding taxes booked by the Israeli subsidiary prior the Destinator acquisition in 2008. This was offset by interest income of \$25,515.

## SELECTED ANNUAL INFORMATION

The following selected annual information (presented in accordance with accounting principles generally accepted in Canada) of the results of operations for the year ended December 31, 2010 includes comparisons to the years ended December 31, 2009 and 2008.

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Revenue	\$ 12,712,290	\$17,485,074	\$24,719,235
Net loss	\$ 4,467,521	\$ 2,930,105	\$38,859,882
Basic loss per common share (basic and diluted)	\$ 0.03	\$ 0.02	\$ 0.26

As at	December 31, 2010	December 31, 2009	December 31, 2008
Total assets	\$15,507,922	\$20,197,989	\$24,841,424
Total long term financial liabilities	\$ 179,162	\$ 7,388	\$ 39,483

See Financial Results section below for discussion on Revenue and Net Loss for the year. The decrease in total assets is primarily due to cash used of approximately \$1.2 million, a decrease in accounts receivable of approximately \$3.0 million, asset impairment of approximately \$2.5 million, the amortization of fixed and intangible assets of approximately \$2.4 million and the release of restricted cash of approximately \$210,000 since December 31, 2008. The increase in long term liabilities is due to the long term portion of the TPC settlement offset by repayments of capital lease obligations during the normal course of business.

## FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2010

The following analysis of the results of operations for the year ended December 31, 2010 includes comparisons to the year ended December 31, 2009.

### Revenue

<i>Revenue by Source</i>	Year ended December 31, 2010	%	Year ended December 31, 2009	%	Change
Device Development Solutions	\$ 7,932,367	62%	\$ 8,623,405	50%	(8%)
Software Solutions	3,917,180	31%	7,750,175	44%	(49%)
Hardware	862,743	7%	1,111,494	6%	(22%)
<b>Total revenue</b>	<b>\$12,712,290</b>	<b>100%</b>	<b>\$17,485,074</b>	<b>100%</b>	<b>(27%)</b>

The decrease in revenue was primarily attributable to a decrease in the sale of Software Solutions inclusive of the Soleus, EIS and Destinator product offerings. Revenue attributable to software solutions include license, maintenance, support and service revenues generated by the Company's software solutions initiatives.

During each of the years ended December 31, 2010 and December 31, 2009, a significant portion of the Company's total revenues were derived from sales to three large customers. These customers accounted for the following percentages of the Company's total revenues as indicated below:

	Year ended December 31, 2010	Year ended December 31, 2009	Change
Revenue	\$ 5,430,846	\$ 6,582,100	(17%)
<b>Percentage of total revenue</b>	<b>43%</b>	<b>38%</b>	

The three customers accounting for 38% of the total revenue for year ended December 31, 2009 were not the same three customers that accounted for 43% of the total revenue for the year ended December 31, 2010.

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

	Year ended December 31, 2010	%	Year ended December 31, 2009	%	Change
United States	\$ 8,668,482	68%	\$11,054,200	63%	(22%)
Latin America	1,227,117	10%	1,061,808	6%	16%
Asia	1,151,522	9%	1,492,848	9%	(23%)
Europe	1,012,937	8%	3,291,035	19%	(69%)
Canada	468,233	4%	251,694	1%	86%
Other	183,999	1%	333,489	2%	(45%)
	<b>\$12,712,290</b>	<b>100%</b>	<b>\$17,485,074</b>	<b>100%</b>	<b>(27%)</b>

The Company continues to generate the majority of its revenue from the United States. In the year ended December 31, 2010, the Company's sales to the European market decreased by 69% compared to the year ended December 31, 2009. The decrease in revenue from European customers was due to a decline in outsourced development services provided to Symbian arising from the decision by Symbian to cease commercial sales of the Symbian operating systems.

### Gross Margin

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

	Year ended December 31, 2010	%	Year ended December 31, 2009	%	Change
Revenues	\$ 12,712,290	100%	\$ 17,485,074	100%	(27%)
Cost of sales	5,430,696	43%	7,738,538	44%	(30%)
<b>Gross margin</b>	<b>\$ 7,281,594</b>	<b>57%</b>	<b>\$ 9,746,536</b>	<b>56%</b>	<b>(25%)</b>

The increase in gross margin percentage for the year ended December 31, 2010 over the same period in the prior year is directly attributable to improved margins related to Device Development Solutions.

## Operating Expenses

	Year ended December 31, 2010	Year ended December 31, 2009	Change
Sales and marketing	\$ 1,989,403	\$ 3,345,696	(41%)
Research and development	2,271,452	4,576,596	(50%)
Administration	2,600,120	2,117,704	23%
Amortization	1,190,023	1,252,184	(5%)
Stock-based compensation	239,561	510,238	(53%)
Technology Partnerships Canada Funding Investment	287,192	342,055	(16%)
Asset impairment	2,542,543	-	100%
Restructuring	485,478	-	100%
Loss (gain) on disposal of equipment	(2,150)	204,166	(101%)
<b>Total operating expenses</b>	<b>\$11,603,622</b>	<b>\$12,348,639</b>	<b>(6%)</b>
<b>As a percentage of total revenue</b>	<b>91%</b>	<b>71%</b>	

The decrease in total operating expenses was due to decreased costs in sales and marketing as well as research and development offset by an asset impairment charge of approximately \$2.5 million. The decrease in costs was primarily due to a continued decrease in headcount. This decrease was offset by increase in administration costs as well as restructuring charges of approximately \$485,000 comprised of employee separation costs.

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

	Year ended December 31, 2010	Year ended December 31, 2009	Change
Sales and marketing	\$ 1,989,403	\$ 3,345,696	(41%)
Research and development	2,271,452	4,576,596	(50%)
Administration	2,600,120	2,117,704	23%
<b>Total operating expenses</b>	<b>\$ 6,860,975</b>	<b>\$ 10,039,996</b>	<b>(32%)</b>
<b>As a percentage of total revenue</b>	<b>54%</b>	<b>57%</b>	

Sales and marketing activities decreased by approximately \$1.4 million and research and development costs decreased by approximately \$2.3 million offset by an increase in administration expenses of approximately \$500,000 over previous year. The decrease for the year ended December 31, 2010 over the prior year is the result of continued prudent cost management resulting in increased operating efficiencies.

### Sales and Marketing

	Year ended December 31, 2010	Year ended December 31, 2009	Change
Sales and marketing	\$ 1,989,403	\$ 3,345,696	(41%)
<b>As a percentage of total revenue</b>	<b>16%</b>	<b>19%</b>	

Total sales and marketing expenses for the year ended December 31, 2010 decreased approximately \$1.4 million, or 41% when compared to the year ended December 31, 2009 due to a decrease in employee related costs, commissions, travel and entertainment, advertising and promotion and office costs.

## Research and Development

	Year ended December 31, 2010	Year ended December 31, 2009	Change
Research and development	\$ 2,271,452	\$ 4,576,596	(50%)
<b>As a percentage of total revenue</b>	<b>18%</b>	<b>26%</b>	

Research and development costs for the year ended December 31, 2010 declined by approximately \$2.3 million or 50% over the year ended December 31, 2009 due to prudent cost management resulting in increased operating efficiencies.

## Administration

	Year ended December 31, 2010	Year ended December 31, 2009	Change
Administration	\$ 2,600,120	\$ 2,117,704	23%
<b>As a percentage of total revenue</b>	<b>20%</b>	<b>12%</b>	

Administration expenses for the year ended December 31, 2010 increased by approximately \$500,000 or 23% over the year ended December 31, 2009 due to additional professional fees and related expenses pertaining to strategic consulting and IFRS transition services during the year ended December 31, 2010. Further, during the year ended December 31, 2009, the Company benefited from several non-recurring reversals due to creditor work outs and for value added taxes booked by the Chinese subsidiary prior to the Destinator acquisition in 2008 against administration expense for this period.

## EBITDA

Earnings before amortization, stock-based compensation, TPC funding investment, asset impairment, restructuring and loss (gain) on disposal of equipment (“EBITDA”) was approximately \$408,000 for the year ended December 31, 2010 compared to approximately (\$293,000) for the year ended December 31, 2009. The improved EBITDA was due primarily to continued operational efficiencies during the year ended December 31, 2010.

	Year ended December 31, 2010	Year ended December 31, 2009
Loss before other expense (earnings) and income taxes	(\$4,322,028)	(\$2,602,103)
Less: Amortization	1,190,023	1,252,184
Less: Stock-based compensation	239,561	510,238
Less: TPC Funding Investment	287,192	342,055
Less: Asset impairment	2,542,543	-
Less: Restructuring	485,478	-
Less: Loss (gain) on disposal of equipment	(2,150)	204,166
<b>EBITDA</b>	<b>\$ 420,619</b>	<b>(\$ 293,460)</b>

## Other Items

	Year ended December 31, 2010	Year ended December 31, 2009
Foreign exchange loss	\$261,607	\$665,847
Interest income	(45,698)	(72,350)
<b>Other items</b>	<b>\$215,909</b>	<b>\$593,497</b>

Net other loss during the year ended December 31, 2010 consisted of foreign exchange loss of \$261,607 offset by interest income of \$45,698. The decrease in interest income for the year ended December 31, 2010 over the prior year is attributable to a decline in average treasury investment balance during the period in conjunction with a reduction in interest rates for such investments.

## LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at December 31, 2010, the Company had cash totaling approximately \$11.2 million, with working capital<sup>3</sup> of approximately \$11.6 million, as compared to cash of approximately \$11.7 million and working capital of approximately \$11.3 million as at December 31, 2009.

### Three Months ended December 31, 2010 (Unaudited)

Cash provided by (used in):	Three months ended December 31, 2010	Three months ended December 31, 2009
Operating activities	\$ 735,451	\$435,010
Investing activities	(1,432)	2,741
Financing activities	(320,371)	(6,835)
Effect of exchange rate changes on cash and cash equivalents	366,616	209,987
<b>Increase in cash and cash equivalents</b>	<b>\$ 780,264</b>	<b>\$640,903</b>

Cash provided by operating activities for all comparable periods was attributable to revenues earned offset by 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 product, and overall corporate administration activities.

Cash used in investing activities for the three months ended December 31, 2010 was approximately \$1,400 compared with provided by of approximately \$2,700 for the three months ended December 31, 2009. During the three months ended December 31, 2010, cash used related to the purchase of fixed assets while cash provided during the three months ended December 31, 2009 was attributable to the sale of fixed assets.

During the three months ended December 31, 2010 cash used in financing activities primarily consisted repayments for capital lease obligations of approximately \$7,600 and by a reclassification of the TPC settlement to operating activities of approximately \$313,000. Cash used by financing activities for the three months ended December 31, 2009 was attributable to repayments for capital lease obligations of \$6,800.

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<sup>3</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.

**Year ended December 31, 2010**

<b>Cash provided by (used in):</b>	<b>Year ended December 31, 2010</b>	<b>Year ended December 31, 2009</b>
Operating activities	(\$1,079,228)	(\$2,302,438)
Investing activities	(71,215)	(55,858)
Financing activities	(22,720)	61,926
Effect of exchange rate changes on cash and cash equivalents	615,375	1,615,145
<b>Decrease in cash and cash equivalents</b>	<b>(\$ 557,788)</b>	<b>(\$ 681,225)</b>

As a result of continued prudent cost management, the Company has reduced the cash used in operating activities in the year ended December 31, 2010 to approximately \$1.0 million, a decrease of 53% over the year ended December 31, 2009.

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 products, and overall corporate administration activities.

Cash used in investing activities for the year ended December 31, 2010 was approximately \$71,000 which was attributable to the purchase of equipment. This is compared to the prior year when the Company used approximately \$56,000 for equipment purchases.

Cash used in financing activities included the release of the restricted cash of approximately \$97,000 offset by payment as part of the TPC settlement of approximately \$74,000 and repayments for capital lease obligations of approximately \$46,000. Cash provided from financing activities during the year ended December 31, 2009 related to the release of restricted cash of approximately \$140,000 related to the Israeli office lease during the period offset by repayments for capital lease obligations of approximately \$78,000.

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 4% during the three months ended December 31, 2010, cash and cash equivalents increased by approximately \$367,000. The Canadian dollar strengthened 6% during the year ended December 31, 2010 which increased cash and cash equivalents by approximately \$615,000. 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 months and year ended December 31, 2010. 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 Company may no longer have access to historical funding sources consisting of credit facilities and public offerings due to the current economic environment, resulting in the Company having to fund future operations with its current working capital and future revenue stream cash flow.

## STAFFING LEVELS

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

	As at December 31, 2010	As at December 31, 2009
Service engineers	43	55
Sales and marketing	8	7
Research and development	11	61
Administration	8	10
<b>Total</b>	<b>70</b>	<b>133</b>

## COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or significant capital leases. The Company has leased facilities in Canada, China and the United States. Minimum lease payments as at December 31, 2010 are as follows for the years ending December 31:

Contractual Obligations	Total	F2011	F2012	F2013	F2014	F2015
Operating lease obligations	\$ 1,972,223	\$565,673	\$359,119	\$359,119	\$359,119	\$329,193

## GOVERNMENT ASSISTANCE

### 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. 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.

### 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 would 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 would be recorded as a reduction of the related expense presented under "Research and development." During 2010 and 2009, expense reductions totaled \$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.

### Export Development Canada

On July 31, 2009, the Company entered into an agreement with Export Development Canada ("EDC") whereby 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.

## **INTANGIBLE ASSETS IMPAIRMENT**

Due to ongoing operating losses of the Company and current volatility and uncertainty of global financial markets, there is a possibility that the carrying values attributable to the Company's intangible assets may become impaired. The recorded balance of intangible assets is \$580,434 as at December 31, 2010. Through the Destinator acquisition in July 2008, the Company identified \$13,698,000 in intangible assets. The Company performed an assessment of the fair value of its intangible assets as at December 31, 2008 resulting in an impairment charge of approximately \$6.5 million recorded at that time. The Company completed an impairment analysis as at December 31, 2009 with no further impairment. The Company completed an impairment analysis as at December 31, 2010 resulting in an impairment charge of approximately \$2.5 million recorded at that time. The remaining carrying value is the fair value of the estimated future cash flow stream associated with the assets which is based on license agreements that have been entered into.

## **OFF-BALANCE SHEET ARRANGEMENTS**

None.

## **TRANSACTIONS WITH RELATED PARTIES**

None.

## **PROPOSED TRANSACTIONS**

None.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company 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, 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, 2010 consolidated financial statements as at and for the year then ended.

### **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 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 their own products for a per unit royalty fee. Royalty revenue is recognized as the Company's products are resold.

### **Allowance for Doubtful Accounts**

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

### **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

Based on anticipated revenues to fund the future estimated cash flows to be generated from such intangible assets the Company has assessed and recorded a non-cash expense of approximately \$2.5 million due to the impairment of such intangible assets for the twelve months ended December 31, 2010. Due to the impairment recorded in 2010, and 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.

### **Changes in Accounting Policies**

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

### **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 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 subsequent to a business combination. 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.

#### **EIC 175 – Multiple Deliverable Revenue Arrangements**

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

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

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption.

Management has determined there is no impact of adopting this standard.

## **Accounting Standards**

### **A) IFRS Assessment and Conversion Plan**

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

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

- Initial diagnostic phase – Involves preparing a preliminary impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact on the Company's reporting and the overall difficulty of the conversion effort. The preliminary impact assessment was completed in fiscal 2010.
- Impact analysis, evaluation and solution development phase – Involves the selection of IFRS accounting policies by senior management and the review by the Audit Committee, the quantification of the impact of changes on the Company's existing accounting policies on the opening IFRS balance sheet, and the development of draft IFRS financial statements. During fiscal 2010, Management reviewed the transitional policy choices available under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and the impact of IFRS adoption was quantified in order to prepare a preliminary IFRS opening balance sheet as at January 1, 2010. The Company is in the process of reviewing its preliminary transitional balance sheet and IFRS accounting policy choice conclusions with its external auditors. The Company expects this to be complete in the first quarter of fiscal 2011.
- Implementation and review phase – Involves training key finance and other personnel and implementation of the required changes to information systems and business policies and procedures. It will enable the Company to collect the financial information necessary to prepare IFRS financial statements and obtain audit committee approval of IFRS financial statements. This phase is ongoing and the Company expects this to be complete in the first quarter of fiscal 2011.

### **IFRS Transition Plan**

The Company has established a comprehensive IFRS transition Plan and engaged third party consultants to assist with the planning and implementation of its transition to IFRS. The following summarizes the Company's progress and expectations with respect to its IFRS plan:

Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS.	Complete.
Detailed evaluation of potential changes required to accounting policies, information systems and business	Complete.

processes, including the application of IFRS 1 First Time Adoption of International Financial Reporting Standards.	
Final determination of changes to accounting policies and choices to be made with respect to first time adoption alternatives.	Complete.
Resolution of the accounting policy change implications on information technology, business processes and contractual arrangements.	Complete.
Quantification of the financial statement impact of changes in accounting policies.	In progress, completion during Q1, 2011.
Management and employee education and training.	In progress, completion during Q1, 2011.

As part of its analysis of potential changes to significant accounting policies, the Company is assessing what changes may be required to its accounting systems and business processes. The Company believes that the changes identified to date are minimal and the systems and processes can accommodate the necessary changes.

To date, the Company has not identified any contractual arrangements that may be affected by potential changes to significant accounting policies.

The Company's staff and consultants involved in the preparation of the financial statements are being trained on the relevant aspects of IFRS and the anticipated changes to accounting policies. Employees of the Company who will be affected by a change to business processes as a result of the conversion to IFRS will also be trained as necessary.

#### **Financial reporting expertise and communication to stakeholders**

The Company has retained external consultants to assist in establishing appropriate IFRS financial reporting at all levels of the business. The Company also held an IFRS update session with the Audit Committee members, as part of the meeting to approve the 2010 annual financial statements. During this session, management and external consultants updated and confirmed the timeline for implementation, the implications of IFRS standards to the Company's business and an overview of the impact to the financial statements. The Audit Committee will continue to receive presentations and project status updates from management as the project progresses towards completion and the preparation of the Company's first financial statements prepared under IFRS (March 31, 2011).

The differences identified by the Company upon transition to IFRS are summarized below:

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

#### **i) Financial Statement Presentation**

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

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

#### **ii) Deferred taxes**

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

**Impact on the Company:** *The Company is currently in a net deferred tax asset position with a full valuation allowance provision. As a result, the Company has not identified any significant classification change upon the adoption of IAS 12.*

### **iii) Provisions**

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

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

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

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

#### **i) Business combinations:**

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

**Impact on the Company:** *The Company has elected to early adopt IFRS 3 with respect to business combinations consummated on or after January 1, 2010, if any. The individual asset and liability balances originally recognized under Canadian GAAP are therefore subject to the transition provisions of specific IFRS standards applicable to those areas.*

#### **ii) Equipment:**

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

**Impact on the Company:** *The Company has elected to use the historical cost carrying values for equipment as determined under Canadian GAAP for transitional purposes.*

#### **iii) Cumulative translation adjustment**

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

**Impact on the Company:** *The Company has elected to reset cumulative translation adjustments of \$2,068,103 to zero at January 1, 2010.*

#### **iv) Designation of previously recognized financial instruments:**

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

*Impact on the Company:* There is no material impact upon transition as the Company's classification of financial instruments under Canadian GAAP has been largely consistent with the principles set out in IAS 39.

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

**i) Equipment - cost**

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

*Impact on the Company:* The Company has applied the straight line or declining balance amortization method to all of its assets that are used directly for operations. The Company believes that the "components" approach is primarily intended to apply to major inspection or overhaul cost that is embedded in the cost of an item of equipment. Given the Company's equipment consists primarily of computers and computer equipment, the Company has not identified any major inspection or overhaul cost with respect to its equipment. Accordingly, the Company has concluded that there is no material impact upon transition.

**ii) Intangible assets – impairment**

The Company has significant balances relating to *Intangible assets*.

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

*Impact on the Company:* The Company does not expect a material impact upon transition as the Company has concluded that there is no significant difference between the carrying values of its intangible assets under IFRS and Canadian GAAP.

**iii) Share based compensation**

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

*Impact on the Company:* The Company has recognized share based compensation expense on a straight line basis under Canadian GAAP and expects to record transitional entries for options unvested at January 1, 2010 for IFRS. The impact of this adjustment at the date of transition is expected to be a \$206,231 increase in deficit and \$206,231 decrease in contributed surplus.

**iv) Revenue recognition**

**Multiple element arrangements:**

The Company's service revenues from software modification, consulting, implementation, training and integration services are accounted for as multiple element arrangements by reference to VSOE of fair value for these services.

There is relatively little guidance under IFRS in respect of multiple element arrangements, other than the requirement to consider whether the components of a contract should be accounted for separately or as a single transaction.

#### **Service arrangements:**

The Company also enters into contracts that are primarily fixed fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems, because these services are essential to the functionality of other elements in the arrangement. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer. Under IAS 18 *Revenues* when the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.

**Impact on the Company:** *The Company has concluded there is no material impact on transition to IFRS as the Company has concluded that there is no material difference between its revenue recognition policies under IFRS and Canadian GAAP.*

#### **vi) Functional currency**

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

**Impact on the Company:** *The Company has concluded there is no material impact on transition to IFRS as the Company has concluded that its functional currency under both IFRS and Canadian GAAP is the Canadian dollar.*

#### **vii) Reporting currency**

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

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

**Impact on the Company:** *The Company has concluded there is no material impact on transition to IFRS. The Company will also apply the methodology described in IAS 21 with respect to its 2010 comparative IFRS financial statements and therefore does not expect a significant difference.*

#### **E) Impact on Transition Date Financial Position**

As a result of the aforementioned IFRS differences, the Company expects that its deficit at January 1, 2010 will decrease by \$1,861,872 under IFRS, as a result of the resetting of cumulative translation adjustments (decrease of \$2,068,103) and the recognition of additional stock-based compensation expense at the date of transition (increase of \$206,231).

#### **F) Impact on Systems and Processes**

Due to the limited number of differences between Canadian GAAP and IFRS identifies, the Company does not expect that adoption of IFRS will have a pervasive impact on its present systems and processes. The Company expects to implement certain minor changes to the general ledger account descriptions as well as the calculation

methodologies currently in use for certain specific financial statement areas such as asset impairment and share based compensation. Appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures have been made. For example, any changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

	December 31, 2010		December 31, 2009	
	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	\$ 3,401,867
Other liabilities	(\$ 2,424,492)	(\$ 2,424,492)	(\$ 3,626,701)	(\$ 3,626,701)

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

### Credit Risk

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

As at December 31, 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
	<b>\$ 14,144,446</b>	<b>\$ 15,111,694</b>

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

	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
	<b>\$ 2,992,007</b>	<b>\$ 3,401,467</b>

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
	<b>\$ 2,164,951</b>	<b>\$ 3,574,134</b>

### Liquidity Risk

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

### Foreign Currency Risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding indebtedness denominated in Canadian dollars as well as a number of foreign currencies. The Company incurs certain research and development expenses in the United States and China. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company attempts to mitigate this risk by denominating many of its payment obligations in U.S. dollars. A 10% change in the U.S. to Canadian dollar exchange rate on the December 31, 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 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 \$1.3 million to other comprehensive income.

### Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily interest earned on its cash and cash equivalents. The Company has performed sensitivity analysis on interest rate risk at December 31, 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.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number of preference shares without par value. As of March 23, 2011, the Company has 163,259,070 common shares outstanding and no preference shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect the lesser of (i) 10% less 1 share of the issued and outstanding common shares of the Company from time to time; and (ii) 30,000,000 common shares of the Company. As of March 23, 2011, the Company is entitled to grant incentive stock options for 16,325,906 common shares under the Company's stock option plan. Presently, a total of 7,140,700 options are issued and outstanding.

## **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 decline in the global economic environment in 2009 and ongoing economic instability in certain parts of the world resulted in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. The economic crisis adversely impacted the software industry which the Company services. If the global economic climate does not recover, the Company may not generate the sales activity required to support its operations resulting in requirement for additional restructurings and erosion of its existing capital resources which may hinder the future viability of the Company.

### **Additional Financing**

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

### **Research and Development**

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

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

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

## **History of Losses**

The Company has a history of losses, and there can be no assurance that the Company's losses will not continue in the future. As at December 31, 2010, the Company had an accumulated deficit of approximately \$108.0 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable.

## **Stock Price Volatility**

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

## **Product Development and Technological Change**

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Company will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and technological innovations by others. There can be no assurance that the Company will be successful in doing this in a timely manner or at all.

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

## **Sales and Marketing and Strategic Alliances**

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

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

### **Dependence on a Small Number of Customers**

The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. During the three and twelve months ended December 31, 2010, approximately 47% and 43% of the Company's consolidated revenue was attributable to its largest three customers. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Company. Moreover, the success of the Company will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

### **Length of Sales Cycle**

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

### **Intellectual Property Protection**

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

### **Competition**

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

### **International Business Operations**

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

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

The Company is dependent upon the broad acceptance by business and consumers of mobile devices, particularly mobile phones utilizing high level operating systems, as well as supporting applications, which will depend on many factors, including:

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

## **Foreign Exchange Risk**

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

## **Potential Fluctuations in Quarterly Results**

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

## **Dependence on Key Personnel**

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

## **Acquisitions**

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

## **Product Liability**

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

## **Future Share Sales**

If the Company's shareholders sell substantial amounts of the Company's common shares, the market price of the Company's common shares could decrease.

## **Shareholder Rights Plan**

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

## **Non-recurring Costs**

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

## **Management of Growth**

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

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

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

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal controls over financial reporting. This evaluation identified no instances in which internal controls did not operate in an effective manner. Nonetheless, the Company has further strengthened its internal control processes to mitigate future potential material financial statement misstatements and other internal control violations. No additional changes were made in the Company's internal control over financial reporting during the three and twelve-month period ended December 31, 2010 and the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Because of the inherent limitations in a control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements. As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a weakness in its disclosure controls and procedures.

Management has concluded that taking into account the present stage of the Company's development and the best interests of its shareholders, the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, supervisory controls are exercised by management and the Audit Committee is vigilant in its oversight.

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" issued by the Canadian Securities Administrators. They concluded that as at December 31, 2010, 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.