



INTRINSYC SOFTWARE INTERNATIONAL, INC.

QUARTERLY REPORT

Second Quarter Fiscal 2010

For the three and six months ended June 30, 2010

Chief Executive Officer Letter

Intrinsyc achieved nominal positive EBITDA (Earnings before interest, amortization, stock-based compensation, TPC funding investment, restructuring charges, loss/(gain) on disposal of equipment, foreign exchange loss/(gain) and income tax) of \$11,012 for the three months ended June 30, 2010. This is the fifth consecutive quarter of positive EBITDA performance.

Revenue for the quarter was approximately \$3.0 million compared to approximately \$3.5 million in the previous quarter and compared to approximately \$4.9 million in the three months ended June 30, 2009. The overall gross margin was 50% compared to 60% in the previous quarter and compared to 56% in the three months ended June 30, 2009. While revenue for the quarter represents a sequential decline of 14% from the previous quarter, revenue and margins were impacted by a significant transaction in the period that deviated from the company's historic business model for service engagements in which revenue is recognized as services are performed. Rather, the Company was compensated at a lower initial margin for services and will receive royalty revenue as the customer sells the product developed.

During the quarter, Intrinsyc assisted a Taiwan based original design manufacturer ("ODM") in the development of an Android tablet device that is planned by the customer to be launched in the third quarter of 2010. Much of the revenue from this project will be recognized in the second half of 2010 in the form of a royalty payment per device for licensed Intrinsyc intellectual property. Although there are some risks associated with this business model, we believe that we can expand our potential customer opportunities pursuant to these arrangements as well as providing greater upside for revenue and margin performance.

We had mixed results with our Destinator[®] product line during the quarter. We have yet to achieve significant sales of Destinator in North America through application stores as this is a very crowded and competitive market. We have slightly better, yet still disappointing performance in the European and Australia markets. In May, we launched Destinator in conjunction with our partners, Movix and Apontador, in the Brazil market. The Brazil market has been our most successful. In accordance with our plans to expand into major emerging markets we completed our software for the China market and we recently received approval from the Chinese government to launch Destinator on the iPhone[™] APP store in China.

Destinator revenue from our OEM customers was down slightly in the quarter. However, we are working with some of our OEM customers as they implement initiatives to expand to new geographic regions and we expect improvement in the third and fourth quarter due to this expansion effort and better seasonal sales trends. Another important measurement was our ability to add new customers for our Destinator software. We were pleased to sign four new Software License Agreements (SLAs) for Destinator during the quarter: Nanovision, for an in-dash navigation system in an electric automobile from Coda Automotive, and SP By Design, Rydeen Mobile Electronics, and Echomaster for use in personal navigation devices.

In 2009, we developed RapidRIL[™] telephony software for Android mobile devices and continue to add new functionality and modem support to this product. RapidRIL accelerates time to market and adds innovative features, such as support for multiple modems and removable modems. RapidRIL was licensed for use in the nook e-reader device from Barnes and Noble and during the past quarter was licensed by Tattu Mobile for use in an Android tablet device.

We are currently in negotiations with additional prospective customers and expect to continue to add to our list of partners and licensees. Furthering our plans to expand our solution offering we are in discussions with two major silicon vendors to introduce reference platforms. We plan to announce more details on these platforms in this quarter.

The Company, on August 10, 2010, entered into an agreement to terminate its Technology Partnerships Canada ("TPC") funding agreement. This termination agreement 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.

Significant Achievements during the quarter were as follows:

- 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.
- Signed an engineering services and software license agreement (SLA) for RapidRIL with Tattu Mobile to support the development of an Android Tablet device.
- Launched Destinator 9 application for the Apple iPhone in Western Europe, Australia and New Zealand.
- Launched Destinator 9 application for the Apple iPhone which will be sold under the brand, Apontador Navegador™, by Apontador.
- Announced a partnership to integrate GyPSii's award-winning social media and contextual advertising/coupon functionality into the globally acclaimed 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 a partnership with MIPS® technology to bring 3.5G functionality to the MIPS architecture. The companies are porting Intrinsic's RapidRIL software to the MIPS architecture in order to accelerate mobile SoC development for MIPS licensees around the globe.
- Established user interface (UI) and Application Center of Excellence, based in Beijing, China will support Original Equipment Manufacturer (OEM) and Original Design Manufacturer (ODM) customers with development of innovative UIs and applications with Microsoft® Silverlight 4.

Intrinsic will continue its focus of expanding relationships with leading technology companies and the solutions we offer to customers, while maintaining our commitment to prudent fiscal management. These actions together with previously initiated restructuring will better position the company for incremental growth and strategic opportunities.

Yours sincerely,



Tracy Rees
President and Chief Executive Officer
August 12, 2010

INTRINSYC SOFTWARE INTERNATIONAL, INC.

For the Three and Six Months Ended June 30, 2010

Part I. Financial Information

	<u>Page</u>
Financial Statements	
a) Consolidated Balance Sheets June 30, 2010 (unaudited) and December 31, 2009	1
b) Consolidated Statements of Operations and Deficit For the three and six months ended June 30, 2010 and June 30, 2009 (unaudited)	2
c) Consolidated Statements of Comprehensive Loss For the three and six months ended June 30, 2010 and June 30, 2009 (unaudited)	3
d) Consolidated Statements of Cash Flows For the three and six months ended June 30, 2010 and June 30, 2009 (unaudited)	4
e) Notes to Consolidated Financial Statements	5
Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Risks and Uncertainties	48
Certifications of Interim Filings	54

INTRINSYC SOFTWARE INTERNATIONAL, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended
June 30, 2010 and 2009

(Unaudited and expressed in U.S. dollars)

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Balance Sheets

(Expressed in U.S. dollars)

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

As at	June 30, 2010 <i>(Unaudited)</i>	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,250,513	\$ 11,710,227
Accounts receivable (notes 4, 14 and 17)	3,113,704	3,401,467
Inventory	25,775	14,269
Prepaid expenses - current	148,263	313,528
Total current assets	13,538,255	15,439,491
Restricted cash (note 3)	-	95,147
Prepaid expenses	42,685	47,063
Equipment (notes 6, 14 and 15)	599,821	735,807
Intangible assets (note 5)	3,394,315	3,880,481
Total assets	\$ 17,575,076	\$ 20,197,989
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (notes 15 and 17)	\$ 2,065,982	\$ 3,574,134
Current portion of long-term payable to Technology Partnerships Canada (notes 8(a) and 12(c))	70,449	-
Capital lease obligation - current (note 9)	38,033	45,179
Deferred revenue	424,378	526,169
Total current liabilities	2,598,842	4,145,482
Long-term payable to Technology Partnerships Canada (notes 8(a) and 12(c))	226,293	-
Long-term capital lease obligation (note 9)	-	7,388
Total liabilities	2,825,135	4,152,870
Shareholders' equity		
Share capital (note 10)	108,288,585	108,288,585
Warrants and underwriters' options (notes 10 and 11)	270,046	4,029,953
Contributed surplus (notes 10 and 11)	9,106,916	5,230,217
Accumulated other comprehensive income (loss) (note 7)	1,891,656	2,068,103
Deficit	(104,807,262)	(103,571,739)
Total shareholders' equity	14,749,941	16,045,119
Total liabilities and shareholders' equity	\$ 17,575,076	\$ 20,197,989

Commitments and contingencies (note 12)

See accompanying notes to unaudited interim consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Operations and Deficit

(Unaudited and expressed in U.S. dollars)

For the	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenues <i>(note 14)</i>	\$ 3,024,458	\$ 4,874,621	\$ 6,531,455	\$ 9,275,428
Cost of sales	1,497,857	2,144,748	2,888,723	4,425,363
	1,526,601	2,729,873	3,642,732	4,850,065
Expenses				
Sales and marketing	399,111	744,602	1,014,332	1,888,517
Research and development <i>(notes 8(b)</i> <i>and 12(c))</i>	638,852	1,140,993	1,479,787	2,504,082
Administration	477,626	534,036	1,034,607	1,337,626
Amortization <i>(notes 5 & 6)</i>	290,889	339,417	579,745	658,746
Stock-based compensation	58,747	108,871	116,792	193,379
Technology Partnerships Canada Funding Investment <i>(notes 8(a) and 12(c))</i>	282,077	143,135	287,192	278,069
Restructuring	-	-	485,478	-
Loss (gain) on disposal of equipment <i>(note 6)</i>	-	199,793	(2,150)	220,345
	2,147,302	3,210,847	4,995,783	7,080,764
Loss before other expense (earnings) and income taxes	620,701	480,974	1,353,051	2,230,699
Other expense (earnings)				
Foreign exchange loss (gain)	(229,798)	310,261	(31,503)	197,078
Interest expense (income)	(10,194)	3,898	(16,796)	(33,931)
Loss before income taxes	380,709	795,133	1,304,752	2,393,846
Income tax recovery				
Current	(71,183)	(86,463)	(69,229)	(60,714)
Net loss for the period	309,526	708,670	1,235,5234	2,333,132
Deficit, beginning of period	104,497,736	102,266,096	103,571,739	100,641,634
Deficit, end of period	\$104,807,262	\$102,974,766	\$104,807,262	\$102,974,766
Loss per share (basic and diluted)	\$0.00	\$0.01	\$0.01	\$0.02
Weighted average number of shares outstanding	163,259,070	163,254,903	163,259,070	163,254,903

See accompanying notes to unaudited interim consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Comprehensive Loss

(Unaudited and expressed in U.S. dollars)

For the	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net loss for the period	(\$309,526)	(\$708,670)	(\$1,235,523)	(\$2,333,132)
Other comprehensive gain (loss):				
Unrealized gains (losses) on translating financial statements from functional currency to reporting currency	(711,683)	1,194,857	(176,447)	657,824
Comprehensive income (loss)	(\$1,021,209)	\$486,187	(\$1,411,970)	(\$1,675,308)

See accompanying notes to unaudited interim consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Consolidated Statements of Cash Flows

(Unaudited and expressed in U.S. dollars)

For the	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
OPERATING ACTIVITIES				
Net loss for the period	(\$309,526)	(\$708,670)	(\$1,235,523)	(\$2,333,132)
Items not involving cash:				
Amortization	290,889	339,417	579,745	658,746
Future income taxes	-	(41,694)	-	(2,603)
Stock-based compensation	58,747	108,871	116,792	193,379
Loss on disposal of equipment <i>(note 6)</i>	-	199,793	-	220,345
Changes in non-cash operating working capital:				
Accounts receivable	(842,175)	593,489	240,511	1,939,018
Inventory	(18,958)	-	(12,178)	14,336
Prepaid expenses	117,153	48,000	170,253	227,909
Accounts payable and accrued liabilities	(1,035,809)	(1,457,154)	(1,508,695)	(3,116,015)
Current portion of long-term payable to Technology Partnerships Canada <i>(notes 8(a) and 12(c))</i>	72,936	-	72,936	-
Deferred revenue	1,555	(115,051)	(97,291)	(7,828)
Cash used in operating activities	(1,665,188)	(1,032,999)	(1,673,450)	(2,205,845)
INVESTING ACTIVITIES				
Purchase of equipment	-	(3,075)	-	(25,941)
Cash used in investing activities	-	(3,075)	-	(25,941)
FINANCING ACTIVITIES				
Repayment of capital lease obligation <i>(note 9)</i>	(7,233)	(9,596)	(14,272)	(63,318)
Long-term payable to Technology Partnerships Canada <i>(notes 8(a) and 12(c))</i>	234,282	-	234,282	-
Restricted cash <i>(note 3)</i>	97,248	1,035	97,248	12,104
Cash provided by (used in) financing activities	324,297	(8,561)	317,258	(51,214)
Effect of exchange rate changes on cash and cash equivalents	(508,944)	904,620	(103,522)	495,622
Decrease in cash and cash equivalents	(1,849,835)	(140,015)	(1,459,714)	(1,787,378)
Cash and cash equivalents, beginning of period	12,100,348	10,744,089	11,710,227	12,391,452
Cash and cash equivalents, end of period	\$10,250,513	\$10,604,074	\$10,250,513	\$10,604,074
<u>Supplementary information</u>				
Interest received	\$10,585	\$3,162	\$17,675	\$21,023
Income taxes paid	-	-	70,756	-

See accompanying notes to unaudited interim consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

1. ORGANIZATION AND BASIS OF FINANCIAL STATEMENT PRESENTATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The Company applied the same accounting policies in the preparation of the unaudited interim consolidated financial statements as disclosed in its audited annual consolidated financial statements as at and for the year ended December 31, 2009. These unaudited interim consolidated financial statements and notes thereto do not include all disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Company.

Future Accounting Changes

HB Section 1582 - Business Combinations

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

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

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Accounting Standards

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

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

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

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

The following sets out the Company's preliminary IFRS policy decisions and significant expected accounting differences based on the Company's preliminary analysis of current IFRS standards. Additional differences between Canadian GAAP and IFRS may be identified as the Company's transition plan is implemented. As a result, these accounting policy choices may change prior to the adoption of IFRS on January 1, 2011. Although management has identified key accounting policy differences, the impact of these differences to the Company's consolidated financial statements has not been determined at this time. Decisions with respect to accounting policy changes, outlined below, may change once management has quantified and thoroughly analyzed the effect of such changes and has presented them for final review and approval by the Audit Committee.

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

- [a] **Business Combinations** – IFRS 1 requires the relevant IFRS business combination standards be applied on a prospective or retroactive basis. The company intends to elect to apply IFRS 3, *Business Combinations (revised)*, on a prospective basis for all business combinations completed after January 1, 2010 and will not restate the Destinator business combination.
- [b] **Cumulative Translation Adjustments** – IFRS 1 allows cumulative translation adjustments for foreign operations to be recognized in equity on transition. Gains or losses from the subsequent disposal of foreign

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

operations would exclude translation differences arising prior to adopting IFRS. The Company will elect to reset its cumulative translation adjustments, totalling \$2,068,103 at December 31, 2009, to zero at the Transition Date.

- [c] **Equipment** – IFRS provides the choice between measuring equipment at fair value at the date of transition and using those amounts as deemed cost or using the historical cost basis under Canadian GAAP. The Company will elect to use the historical cost carrying values for equipment as determined under Canadian GAAP, substantively equivalent to IFRS, for transitional purposes.

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

- [a] **Impairment of equipment and intangible assets** - Canadian GAAP uses a two step approach to assess impairment, while under IFRS impairment testing is a one-step process. As a result, there is a higher probability that an impairment loss would be recognized under IFRS than under Canadian GAAP. In addition, Canadian GAAP does not allow any impairment losses to be reversed, while under IFRS, if certain criteria are met, reversal is required. The Company is currently reviewing previously reported balances to determine the extent of any transitional adjustment required.
- [b] **Share-based payments** – Canadian GAAP allows each grant to be treated as a single arrangement and compensation expense to be determined at the time of grant and amortized over the vesting period on a straight-line basis. IFRS requires a separate calculation of compensation expense for grants that vest in instalments. Compensation expense recognition will therefore be accelerated under IFRS. The Company is currently reviewing previously reported balances to determine the extent of any transitional adjustment require

3. RESTRICTED CASH

During 2008, as part of a settlement the Company had with one of its vendors, the Company agreed to pay \$563,592 (CDN \$600,000) cash as well as paying \$187,864 (CDN \$200,000) of the account by issuing the vendor 1,250,000 common shares at a price of \$0.15 (CDN \$0.16) for a total payment of \$751,456 (CDN \$800,000). The shares were issued on November 27, 2008. The shares were subject to a 4-month hold period from date of issue and will require orderly liquidation of the shares on a basis restricted to 25% of the total volume during any 6-month period unless previously approved by the Company. Intrinsic guaranteed that a minimum of \$93,932 (CDN \$100,000) would be received from the sale of shares. As such, the Company placed \$93,932 (CDN \$100,000) in trust which would be released to the Company upon liquidation of such shares. In the event that the total proceeds from disposition were lower than \$93,932 (CDN \$100,000), such dispositions would be offset by payment from such funds held in trust. As of June 30, 2010, all 1,250,000 shares had been liquidated by the vendor for total proceeds of \$76,000 (CDN \$80,909). As such, the Company received from the funds held in trust of \$76,000 (CDN \$80,909) with the balance of \$17,932 (CDN \$19,091) being paid to the vendor and expensed during the three months ended June 30, 2010.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

4. ACCOUNTS RECEIVABLE

	June 30, 2010	December 31, 2009
Trade and miscellaneous receivables	\$ 3,053,167	\$ 3,590,387
Less: Allowance for doubtful accounts	(647,389)	(655,766)
Unbilled revenue	707,926	466,846
	\$ 3,113,704	\$ 3,401,467

5. INTANGIBLE ASSETS

The following table presents details of movement in the carrying value of the intangible assets as at June 30, 2010:

	Amount
Balance, December 31, 2009	\$ 3,880,481
Amortization	(449,435)
Foreign exchange due to weakening of Canadian dollar	(36,731)
Balance, June 30, 2010	\$ 3,394,315

Total amortization of intangible assets for the three months ended June 30, 2010 and 2009 was \$225,448 and \$198,427. Total amortization of intangible assets for the six months ended June 30, 2010 and 2009 was \$449,435 and \$404,599, respectively. The amount of amortization reclassified from equipment to intangible assets under CICA HB Section 3064 was \$8,221 for three months ended June 30, 2009 and \$36,061 for the six months ended June 30, 2009.

The following table presents a breakdown of intangibles by type:

June 30, 2010	Cost	Accumulated depreciation	Net book value
Acquired software technology	\$ 4,070,938	\$ 1,150,772	\$ 2,920,166
Computer software	1,014,484	984,533	29,951
Customer relationships	257,317	123,441	133,876
Patent portfolio	318,786	51,035	267,751
Trademarks and brand	57,895	15,324	42,571
	\$ 5,719,420	\$ 2,325,105	\$ 3,394,315

The carrying value of intangible assets is inherently uncertain. As of June 30, 2010, the Company has performed a recoverability analysis and concluded the value of its intangible assets to be recoverable. Recoverability analysis requires the company to make assumptions about the future. Changes to one or more assumptions would result in a change in the recoverable amount calculated. A lower recoverable amount could result in the need for a material impairment charge in the near term.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

5. INTANGIBLE ASSETS (cont'd)

December 31, 2009	Cost	Accumulated depreciation	Net book value
Acquired software technology	\$ 4,323,616	\$ 1,003,844	\$ 3,319,772
Computer software	1,027,611	977,392	50,219
Customer relationships	279,014	126,817	152,197
Patent portfolio	412,911	108,520	304,391
Trademarks and brand	68,644	14,742	53,902
	\$ 6,111,796	\$ 2,231,315	\$ 3,880,481

6. EQUIPMENT

June 30, 2010	Cost	Accumulated depreciation	Net book value
Computers and equipment	\$ 1,996,386	\$ 1,634,404	\$ 361,982
Furniture and fixtures	1,024,608	814,261	210,347
Leasehold improvements	505,701	478,209	27,492
	\$ 3,526,695	\$ 2,926,874	\$ 599,821

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

Total amortization for the three months ended June 30, 2010 and 2009 was \$65,441 and \$140,990, respectively. Total amortization for the six months ended June 30, 2010 and 2009 was \$130,310 and \$254,147, respectively.

During the three months ended June 30, 2010, there was no disposal of assets as compared to the three months ended June 30, 2009, in which the Company disposed of assets and recorded a loss of \$199,793. During the six months ended June 30, 2010 and 2009, the Company disposed of assets and recorded a gain of \$2,150 and loss of \$220,345, respectively.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

7. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

	June 30, 2010	December 31, 2009
Balance – beginning of period	\$ 2,068,103	(\$ 159,400)
Unrealized foreign currency translation gains (losses)	(176,447)	2,227,503
Balance – end of period	\$ 1,891,656	\$ 2,068,103

8. GOVERNMENT ASSISTANCE

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

Under agreements with the ITO, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of \$3.6 million (CDN \$3.8 million) in contributions during the term of the agreement. In exchange for these contributions, the Company has agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over CDN \$10.0 million until August 31, 2011. To date, the Company has paid approximately \$1,439,532 (CDN \$1,532,526) to ITO in royalties.

The Company, on August 10, 2010, entered into an agreement to terminate its Technology Partners Canada (“TPC”) funding agreement. This termination agreement 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 (See Note 12[c] – Commitments and Contingencies). The Company has recorded the amount payable under this termination agreement in the three month period ended June 30, 2010.

b) Industrial Research Assistance Program (“IRAP”)

Effective June 15, 2009, the Company entered into an agreement with the National Research Council Canada (“NRC”) under its Industrial Research Assistance Program (“IRAP”). Under this agreement, the NRC 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.” Payment for claims totalling \$36,479 (CDN \$38,836) for January, February and March which were accrued as of March 31, 2010 were received in April and May 2010.

9. CAPITAL LEASE OBLIGATIONS

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

9. CAPITAL LEASE OBLIGATIONS (cont'd)

	June 30, 2010	December 31, 2009
Minimum lease payments	\$ 39,276	\$ 54,575
Interest at 3.3% per annum	(1,243)	(2,008)
Lease principal obligation	38,033	52,567
Current portion	(38,033)	(45,179)
Long-term portion	\$ -	\$ 7,388

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

	Amount
Remainder of 2010	\$ 31,913
2011	7,363
	\$ 39,276

10. SHARE CAPITAL

Authorized

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

	Number of common shares	Amount
Outstanding, December 31, 2009	163,259,070	\$108,288,585
No transactions during the quarter	-	-
Outstanding, March 31, 2010	163,259,070	\$108,288,585
No transactions during the quarter	-	-
Outstanding, June 30, 2010	163,259,070	\$108,288,585

Share option plan

The Company has a rolling incentive stock option plan. Under the terms of the Company's stock option plan, the Board of Directors may grant options to directors, officers, employees, service providers and consultants equal to the lower of: (i) up to 10% of issued and outstanding common shares of the Company from time to time less one share; and, (ii) 30,000,000 shares. The plan provides for the granting of options at the closing price of the Company's stock on the day prior to the grant date. Options granted generally vest over three years with the first one-third vesting at the first

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

10. SHARE CAPITAL (cont'd)

anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The Company determines the term of each option at the time it is granted, with options generally having a five-year term. As of June 30, 2010 the number of options reserved under the plan was 16,325,906.

A summary of the Company's share option activity for the six months ended June 30, 2010 is as follows:

	Outstanding options	
	Number of common shares	Weighted average exercise price (in Canadian dollars)
Outstanding, December 31, 2009	8,438,646	\$ 0.34
Options granted	3,014,250	0.07
Options exercised	-	-
Options forfeited/expired	(1,857,011)	0.46
Outstanding, June 30, 2010	9,595,885	\$ 0.23

For options granted to directors, officers and employees, stock-based compensation is recorded evenly over the vesting term, which is usually thirty six (36) months while stock options are re-valued on a quarterly basis for service providers or consultants. In the event of an option forfeiture, any expense recognized to date on unvested options is reversed in the period in which the forfeiture occurs.

The following table summarizes the share options outstanding as at June 30, 2010:

Options outstanding			Options exercisable		
Range of exercise price (in Canadian dollars)	# of common shares	Weighted average remaining contractual life (years)	Weighted average exercise price (in Canadian dollars)	# of options exercisable	Weighted average exercise price (in Canadian dollars)
\$ 0.06 – \$ 0.15	7,371,142	4.29	\$ 0.08	2,754,988	\$ 0.09
\$ 0.16 – \$ 0.74	1,024,376	2.34	\$ 0.56	829,875	\$ 0.56
\$ 0.75 – \$ 0.90	582,742	1.45	\$ 0.79	566,783	\$ 0.79
\$ 0.91 – \$ 1.26	617,625	2.12	\$ 0.99	547,458	\$ 1.00
	9,595,885	3.77	\$ 0.23	4,699,104	\$ 0.36

The weighted average fair value of stock options granted during the three and six months ended June 30, 2010 was CAD \$0.07 and CAD \$0.07 per share [CAD \$0.10 and CAD \$0.06 per share for the three and six months ended June 30, 2009]. The fair value of each option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

10. SHARE CAPITAL (cont'd)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Expected life (in years)	4.0	4.0	4.0	4.0
Risk-free interest rate	2.71%	2.16%	2.71%	1.91%
Volatility	126.01%	132.26%	126.00%	126.23%
Dividend yield	0.00%	0.00%	0.00%	0.00%

Warrants and underwriters' options

A summary of the Company's share purchase warrants and underwriters' options as at June 30, 2010 and December 31, 2009 is as follows:

Outstanding warrants and underwriters' compensation options

	Number of warrants and underwriters' compensation options	Weighted average exercise price (in Canadian dollars)	Amount
Outstanding, December 31, 2009	16,197,275	\$ 0.99	\$ 4,029,953
Compensation options and warrants expired	(13,912,307)	1.05	(3,759,907)
Outstanding, June 30, 2010	2,284,968	\$ 0.62	\$ 270,046

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

	Number of options	Exercise (in Canadian dollars)	Expiry date
Warrants issued October 3, 2005	2,284,968	\$ 0.62	October 3, 2010
Outstanding, June 30, 2010	2,284,968		

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

11. CONTRIBUTED SURPLUS

	June 30, 2010	December 31, 2009
Balance – beginning of period	\$ 5,230,217	\$ 4,260,625
Transfer to common share capital of issue date fair value for options exercised	-	(201)
Transfer from warrants and underwriters' compensation options for expired compensation options (<i>note 10</i>)	3,759,907	459,555
Stock-based compensation expense	116,792	510,238
Balance – end of period	\$ 9,106,916	\$ 5,230,217

12. COMMITMENTS AND CONTINGENCIES

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

	Amount
Remainder of 2010	\$ 360,032
2011	322,877
2012	315,514
2013	315,514
2014	315,514
2015	289,221
	\$ 1,918,672

- [b] The Company has a commitment to pay a royalty of \$15 per \$100 of licenses sold of certain software licenses. In the event the cumulative royalty is less than \$150,000, the Company was required to pay the difference between the cumulative amount paid and the \$150,000 on November 30, 2008. The Company had accrued the remaining balance of \$148,647 (CDN\$158,250) as at December 31, 2007 as management determined that future sales under this agreement were unlikely. No payment had been made as of June 30, 2010.
- [c] The Company previously received correspondence from the Industrial Technology Office (“ITO” formerly “TPC”) indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and that an invoice will be issued to the Company for approximately CDN \$929,183 in addition to the already recorded CDN \$22,063 (see Note 8[a] – Technology Partnerships Canada). The Company disputed the validity of the claim by TPC of these amounts.

The Company, on August 10, 2010, entered into an agreement to terminate its Technology Partnerships Canada (“TPC”) funding agreement. This termination agreement 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 (see above). The Company has recorded the amount payable under this termination agreement in the three month period ended June 30, 2010.

- [d] The Company warrants that its software and hardware products will operate substantially in conformity with product documentation and that the physical media will be free from defect. The specific terms and conditions of the warranties are generally ninety days. The Company accrues for known warranty issues if a loss is probable

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

12. COMMITMENTS AND CONTINGENCIES (cont'd)

and can be reasonably estimated, and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

- [e] As part of the restructuring initiatives undertaken in fiscal 2008, the Company provided a guarantee regarding an exited facility lease on behalf of a third party tenant. In the event that such tenant forfeits on any lease payment obligations until the expiration of the lease term on November 30, 2010, the Company would be responsible for any current and future lease payments, up to a maximum amount of approximately \$55,481 (CDN \$59,065) (which equals remaining lease payments and has not been accrued) as at June 30, 2010. The new tenant has entered into a lease agreement and has been making payments for this lease facility.
- [f] The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

13. EXPORT DEVELOPMENT CANADA ("EDC")

On July 31, 2009, the Company entered into an agreement with Export Development Canada ("EDC") whereby EDC would provide insurance for the Company's invoiced sales for a premium of anywhere from CDN \$0.32 to CDN \$0.78 per CDN \$100 of monthly invoiced sales (certain customers are excluded from this coverage). The policy period 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 the three and six months ended June 30, 2010, the Company recorded total premiums of \$7,319 (CDN \$7,527) and \$16,931 (CDN \$17,410) in sales and marketing [CDN \$nil – three and six months ended June 30, 2009]. As of June 30, 2010, a total of \$3,583 (CDN \$3,814) in premiums were outstanding. To date, the Company continues to have a claims free history.

14. SEGMENTED INFORMATION

Operating segments

The Company operates in two segments:

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

A breakdown of revenues, cost of sales and operating expenses for each reportable segment for the three and six months ended June 30, 2010 and June 30, 2009 is as follows:

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

14. SEGMENTED INFORMATION (cont'd.)

Three months ended June 30, 2010	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 1,125,502	\$ 1,524,640	\$ 374,316	\$ 3,024,458
Cost of sales	122,874	1,159,601	215,382	1,497,857
Gross margin	1,002,628	365,039	158,934	1,526,601
Operating expenses	638,852	-	1,508,450	2,147,302
Operating profit (loss)	\$ 363,776	\$ 365,039	(\$ 1,349,516)	(\$ 620,701)

Three months ended June 30, 2009	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 2,100,066	\$ 2,408,468	\$ 366,087	\$ 4,874,621
Cost of sales	212,330	1,737,961	194,457	2,144,748
Gross margin	1,887,736	670,507	171,630	2,729,873
Operating expenses	1,140,993	-	2,069,854	3,210,847
Operating profit (loss)	\$ 746,743	\$ 607,507	(\$ 1,898,224)	(\$ 480,974)

Six months ended June 30, 2010	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 2,547,153	\$ 3,425,942	\$ 558,360	\$ 6,531,455
Cost of sales	243,351	2,324,304	321,068	2,888,723
Gross margin	2,303,802	1,101,638	237,292	3,642,732
Operating expenses	1,479,787	-	3,515,996	4,995,783
Operating profit (loss)	\$ 824,015	\$ 1,101,638	(\$ 3,278,704)	(\$ 1,353,051)

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

While the Company does report gross margin by segments, it does not allocate operating expenses with the exception of research and development expenses, which are attributable to its software business.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

14. SEGMENTED INFORMATION (cont'd.)

Geographic information

The Company's equipment is located as follows:

	June 30, 2010	December 31, 2009
Canada	\$ 476,138	\$ 547,046
Asia	123,683	188,761
Total	\$ 599,821	\$ 735,807

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

	Three months ended June 30, 2010	%	Three months ended June 30, 2009	%	Six months ended June 30, 2010	%	Six months ended June 30, 2009	%
United States	\$2,112,864	70%	\$3,097,084	64%	\$4,561,032	70%	\$5,354,091	58%
Latin America	348,235	12%	109,803	2%	757,677	12%	318,636	4%
Europe	234,792	8%	781,529	16%	606,686	9%	2,177,506	23%
Asia	211,016	7%	747,978	15%	359,665	6%	1,124,484	12%
Canada	97,106	3%	66,680	1%	135,561	2%	98,816	1%
Other	20,445	-	71,547	2%	110,834	1%	201,895	2%
	\$3,024,458	100%	\$4,874,621	100%	\$6,531,455	100%	\$9,275,428	100%

Significant customers

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

	% of Sales				% of Accounts Receivable
	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009	June 30, 2010
Customer 1	22%	25%	27%	18%	15%
Customer 2	12%	12%	9%	13%	5%
Customer 3	11%	10%	8%	11%	10%
Total	45%	47%	44%	42%	30%

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

14. SEGMENTED INFORMATION (cont'd)

For the three months ended June 30, 2010, revenues earned from Customers 1 and 3 related to Device Development Solutions while revenues earned from Customer 2 related to other revenue. For the three months ended June 30, 2009, revenues earned from Customers 1 and 3 related to Device Development Solutions while revenues from Customer 2 related to Software Solutions. For the six months ended June 30, 2010, revenues earned from Customers 1 and 3 related to Device Development Solutions while revenues earned from Customer 2 related to Software Solutions. For the six months ended June 30, 2009, revenues earned from Customers 1, 2 and 3 related to Device Development Solutions.

15. RESTRUCTURING

On December 1, 2008, the Company announced restructuring initiatives to reduce operating costs. On February 8, 2010 the Company announced an additional restructuring plan to further reduce its cost structure, and changes in its management, designed to improve operational efficiency and effectiveness.

The following table summarizes the expenses recorded by the Company as at June 30, 2010:

	Employee Related Costs	Loss on Disposal of Equipment	Office Related Costs	Other Costs	Total
Charges	\$ 1,318,428	\$ 430,615	\$ 905,676	\$ 357,228	\$ 3,011,947
Settlements/adjustment	(935,573)	(417,425)	41,763	(357,228)	(1,668,463)
Balance at December 31, 2008	\$ 382,855	\$ 13,190	\$ 947,439	\$ -	\$ 1,343,484
Settlements	(382,855)	(13,190)	(900,181)	-	(1,296,226)
Balance at December 31, 2009	\$ -	\$ -	\$ 47,258	\$ -	\$ 47,258
Charges	485,478	-	-	-	485,478
Settlements/adjustment	(300,590)	-	(11,656)	-	(312,246)
Balance at March 31, 2010	\$ 184,888	\$ -	\$ 35,602	\$ -	\$ 220,490
Charges	-	-	-	-	-
Settlements/adjustment	(63,987)	-	(14,701)	-	(78,688)
Balance at June 30, 2010	\$ 120,901	\$ -	\$ 20,901	\$ -	\$ 141,802

The balance as at June 30, 2010 includes future employee related payments as well as future lease commitments of office space which are redundant due to the Company's restructuring initiatives in 2008. This balance is included as a future financial commitment (see Note 12(a) – Commitments and Contingencies).

16. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

16. CAPITAL DISCLOSURES (cont'd)

- To fund capital projects for facilitation of business expansion providing there is sufficient liquidity of capital to enable the internal financing.
- To maintain a capital base so as to maintain investor, creditor and market confidence.

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

As at June 30, 2010, the shareholders' equity of the Company was \$14,749,941 [December 31, 2009 - \$16,045,119].

17. FINANCIAL INSTRUMENTS

[a] Financial assets and liabilities

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

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

The carrying values and fair values of financial assets and liabilities as at June 30, 2010 and December 31, 2009 are summarized as follows:

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-for-trading	\$ 10,250,513	\$ 10,250,513	\$ 11,710,227	\$ 11,710,227
Loans and receivables	\$ 3,113,704	\$ 3,113,704	\$ 3,401,467	\$ 3,401,867
Other liabilities	\$ 2,400,757	\$ 2,400,757	\$ 3,626,701	\$ 3,626,701

[b] Fair Value Disclosure

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

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

17. FINANCIAL INSTRUMENTS (cont'd)

There are three levels of the fair value hierarchy:

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

At June 30, 2010, the Company's financial instruments which are measured at fair value on a recurring basis were cash and cash equivalents. These financial instruments were classified as "Level 1" financial instruments.

[c] Risk Management

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

[i] Credit Risk

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

As at June 30, 2010 and December 31, 2009, the Company's exposure to credit risk for these financial instruments was as follows:

	June 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 10,250,513	\$ 11,710,227
Accounts receivable	3,113,704	3,401,467
	\$ 13,364,217	\$ 15,111,694

Accounts receivable was aged as follows as at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Current	\$ 2,604,066	\$ 3,211,666
31-60 days	317,591	162,947
Over 60 days	192,047	26,854
	\$ 3,113,704	\$ 3,401,467

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

17. FINANCIAL INSTRUMENTS (cont'd)

[ii] Liquidity Risk

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

[iii] Foreign Currency Risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding indebtedness denominated in Canadian dollars as well as a number of foreign currencies. The Company incurs certain research and development expenses in the United States 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 June 30, 2010 balances would have an approximate \$581,000 impact on net income. A 10% change in the Chinese Yuan to Canadian dollar exchange rate on the June 30, 2010 balances would have an insignificant impact on net income. The Company may purchase foreign exchange forward contracts to hedge sales to customers and expenditures expected to occur in the near future in U.S. dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at June 30, 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 \$1.5 million to other comprehensive income.

[iv] Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily interest earned on its cash and cash equivalents. The Company has performed sensitivity analysis on interest rate risk at June 30, 2010 to determine how a change in interest rates would impact equity and net earnings. During the three months ended June 30, 2010, the Company earned \$10,585 of interest income on its cash and cash equivalents. An increase of 100 basis points in the average interest rate earned during the period would have increased net earnings by approximately \$112,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

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

For the Three and Six Months ended June 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been prepared by management as of August 12, 2010 and should be read in conjunction with the unaudited interim consolidated financial statements and related notes thereto of Intrinsic Software International, Inc. ("Intrinsic" or the "Company") as at and for the three and six months ended June 30, 2010 and with the audited consolidated financial statements and related notes thereto of the Company for the year ended December 31, 2009, which were prepared in accordance with Canadian generally accepted accounting principles. All amounts are presented in United States (U.S.) dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis may contain certain information of a forward-looking nature. Such information may include estimates, projections or statements relating to the Company's business plans, objectives and expected operating results. These statements generally are identified by words such as "expects," "anticipates," "believes," "intends," "estimates," "predicts," "potential," "targeted," "plans," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risks and Uncertainties". The Company disclaims any intent or obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

Intrinsic provides solutions for mobile device development and navigation/location based services ("LBS") applications that enable and enhance next-generation handheld products, including smart phones, and other mobile and embedded devices. The Company's products include Destinator navigation and LBS application, ToBe™ Gateway Server for delivering content services based on location, and other software and enabling technology for mobile device development. Combined with award winning Device Development Solutions, Intrinsic helps device makers, and silicon vendors deliver compelling mobile products with faster time-to-market and improved innovation and quality. Intrinsic is a Microsoft Windows® Embedded Gold Partner and a winner of Microsoft Windows Embedded Excellence Awards in 2008 and 2009, and is accredited as Symbian and S60 Competence Centers.

The Company was incorporated under the laws of Alberta on August 31, 1992 under the name I.T.C. Microcomponents Inc. and continued under the laws of British Columbia on July 19, 1995. The Company changed its name to 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.

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

The Company's navigation and LBS solutions are sold to original equipment manufacturers ("OEMs"), and original device manufacturers ("ODMs"), who deploy mobile products such as consumer mobile handsets and personal navigation devices ("PNDs") 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), tablet devices, eReaders, industrial handhelds, navigation devices, and wireless embedded devices, as well as the strong growth of mobile applications, especially navigation and location based services. Intrinsyc believes these markets will provide increased demand for its products and services.

Intrinsyc markets its products and services 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 became an asset for cost effective delivery of engineering services, and support of regional customers complementing the Company's Device Development Solutions.

SIGNIFICANT EVENTS FOR SECOND QUARTER 2010

Financial Highlights

- Revenue decrease of 14% from the three months ended March 31, 2010 and decline of 38% from the three months ended June 30, 2009.
- Operating expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Restructuring and Loss (gain) on disposal of equipment)¹ for the three months ended June 30, 2010 decreased by 25% from the three months ended March 31, 2010 and was reduced by 37% from the three months ended June 30, 2009. The decrease in total operating expenses over the three months ended June 30, 2009 was due to decreased costs in all areas of operations, primarily due to a decrease in headcount and increased operating efficiencies throughout 2010.
- EBITDA² of \$11,012 for the three months ended June 30, 2010 compared to EBITDA of 102,994 for the three months ended March 31, 2010 and EBITDA of \$310,242 for the three months ended June 30, 2009.
- Fifth consecutive quarter of having positive EBITDA.
- Entered into an agreement to terminate its Technology Partners 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.

Customer Highlights

- 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.
- Signed an engineering services and software license agreement (SLA) for RapidRIL with Tattu Mobile to support the development of an Android Tablet device.

Marketing Highlights

- Launched Destinator 9 application for the Apple iPhone in Western Europe, Australia and New Zealand.
- Launched Destinator 9 application for the Apple iPhone which will be sold under the brand, Apontador Navegador™, by Apontador.

¹ Operating expenses (excluding Amortization, Stock-based compensation, Technology Partnerships Canada Funding Investment, Restructuring 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.

² EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non- GAAP measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here also does not include foreign exchange gains or losses, Technology Partnerships Canada (“TPC”) funding investment, stock based compensation, gains or losses on disposal of equipment or restructuring charges. 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.

Partner Highlights

- Announced a partnership to integrate GyPSii's award-winning social media and contextual advertising/coupon functionality into the globally acclaimed 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 a partnership with MIPS technology to bring 3.5G functionality to the MIPS architecture. The companies are porting Intrinsic's RapidRIL software to the MIPS architecture in order to accelerate mobile SoC development for MIPS licensees around the globe.

Technological Highlight

- Established user interface (UI) and Application Center of Excellence, based in Beijing, China will support Original Equipment Manufacturer (OEM) and Original Design Manufacturer (ODM) customers with development of innovative UIs and applications with Microsoft Silverlight 4.

SELECTED QUARTERLY INFORMATION

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

Balance Sheets

(in US\$ '000's)	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008
Cash and cash equivalents	\$10,251	\$12,100	\$11,710	\$11,069	\$10,604	\$10,744	\$12,391	\$19,659
Working capital	\$10,939	\$11,086	\$11,294	\$11,012	\$9,935	\$8,933	\$10,574	\$17,353
Total assets	\$17,575	\$19,417	\$20,198	\$20,784	\$20,183	\$20,924	\$24,841	\$57,757
Other long term financial liabilities	\$226	\$-	\$7	\$14	\$21	\$77	\$39	\$107
Shareholders' equity	\$14,750	\$15,712	\$16,045	\$15,979	\$14,755	\$14,160	\$16,237	\$47,821

Statements of Operations

(in US\$ '000's, except earnings per share)	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended December 31, 2009	Three months ended September 30, 2009	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended December 31, 2008	Three months ended September 30, 2008
Revenue	\$3,024	\$3,507	\$3,854	\$4,355	\$4,875	\$4,401	\$5,728	\$7,870
Cost of goods sold	1,498	1,391	1,542	1,771	2,145	2,281	2,639	3,093
Gross margin	1,526	2,116	2,312	2,584	2,730	2,120	3,089	4,777
Expenses								
Sales and marketing	399	615	707	750	745	1,144	1,181	2,317
Research and development	639	841	1,133	939	1,141	1,363	3,437	4,097
Administration	478	557	157	623	534	804	1,577	2,466
Amortization	291	289	288	306	339	319	698	738
Stock-based compensation	59	58	149	168	109	85	215	280
Technology Partnerships Canada								
Funding Investment	281	5	-	64	143	135	24	117
Asset impairment	-	-	-	-	-	-	19,279	-
Restructuring	-	485	-	-	-	-	3,012	815
Loss (gain) on disposal of equipment	-	(2)	24	(40)	200	21	-	-
Total operating expenses	2,147	2,848	2,458	2,810	3,211	3,871	29,423	10,830
Loss before other items and income taxes	(621)	(732)	(146)	(226)	(481)	(1,751)	(26,334)	(6,053)
Other items	(240)	192	304	126	314	(152)	(1,152)	(438)
Loss before income taxes	(381)	(924)	(450)	(352)	(795)	(1,599)	(25,182)	(5,615)
Income tax expense	(71)	2	(69)	(136)	(86)	25	(148)	121
Net loss	(\$310)	(\$926)	(\$381)	(\$216)	(\$709)	(\$1,624)	(\$25,034)	(\$5,736)
Loss per share	\$0.00	\$0.01	\$0.00	\$0.00	(\$0.01)	(\$0.01)	(\$0.15)	(\$0.04)

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2010

The following analysis of the results of operations for the three months ended June 30, 2010 includes comparisons to the three months ended March 31, 2010 and June 30, 2009, respectively.

Revenue

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

- 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, Soleus and Enterprise Interoperability software product offerings; and
- Hardware sales.

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

<i>Revenue by Source</i>	Three months ended June 30, 2010		Three months ended March 31, 2010		Three months ended June 30, 2009	
		%		%		%
Device Development Solutions	\$1,524,640	50%	\$1,901,302	54%	\$2,408,468	49%
Software Solutions	1,125,502	37%	1,421,651	41%	2,100,066	43%
Hardware	374,316	13%	184,044	5%	366,087	8%
Total revenue	\$3,024,458	100%	\$3,506,997	100%	\$4,874,621	100%

Revenue for the three months ended June 30, 2010 decreased by 14% from the three months ended March 31, 2010 with the decrease over the prior quarter attributable to lower sales attributable to Software Solutions and Device Development Solutions offset by increased revenues attributable to the hardware sales. Revenue for the three months ended June 30, 2010 represented a decrease of 38% from the three months ended June 30, 2009 due to a decrease in revenues among Device Development Solutions and Software Solutions offset by a slight increase in hardware revenues. Device Development Solutions continued to account for the majority of the Company's revenue during the three months ended June 30, 2010.

Device Development Solutions revenue for the three months ended June 30, 2010 was approximately \$1.5 million, compared to approximately \$1.9 million for the three months ended March 31, 2010 and approximately \$2.4 million for the three months ended June 30, 2009. The decrease over the prior quarter was due to fewer active projects. The decrease over the same period in the prior year was due primarily to the decline in outsourced development services provided to Symbian, as a result of the decision by Symbian to cease marketing the Symbian OS as a commercial product.

Total revenues attributable to the Company's Software Solutions decreased by 21% during the three months ended June 30, 2010 compared to the three months ended March 31, 2010 and decreased by 46% compared to the three months ended June 30, 2009. These decreases over the prior periods was primarily due to lower sales of the Destinator navigation software.

Total revenues attributable to the Company's Software Solutions decreased to 37% of total revenues during the three months ended June 30, 2010 compared to 41% for the three months ended March 31, 2010 and 43% for the three months ended June 30, 2009. The decrease in software solutions revenue in the three months ended June 30, 2010 compared to June 30, 2009 was primarily due to lower sales of the Destinator navigation software.

Hardware revenue was \$374,316 in the three months ended June 30, 2010 accounting for 13% of total revenue compared to \$184,044 or 5% of total revenue for the three months ended March 31, 2010 and \$366,087 or 8% of total revenue for the three months ended June 30, 2009.

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

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Revenue	\$1,364,400	\$1,627,730	\$2,266,596
Percentage of total revenue	45%	46%	47%

The three customers accounting for 45% of the total revenue for the three months ended June 30, 2010 were not the same three customers that accounted for 46% for the three months ended March 31, 2010 and 47% for the three months ended June 30, 2009.

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

	Three months ended June 30, 2010		Three months ended March 31, 2010		Three months ended June 30, 2009	
		%		%		%
United States	\$2,112,864	70%	\$2,448,168	70%	\$3,097,084	64%
Latin America	348,235	12%	409,442	12%	109,803	2%
Europe	234,792	8%	371,894	11%	781,529	16%
Asia	211,016	7%	148,649	4%	747,978	15%
Canada	97,106	1%	38,455	1%	66,680	1%
Other	20,445	-	90,389	2%	71,547	2%
	\$3,024,458	100%	\$3,506,997	100%	\$4,874,621	100%

The Company continues to generate the majority of its revenue from the United States and European markets.

Gross Margin

Gross margins on Software Solutions revenue are generally significantly higher than the gross margins obtained on Device Development Solutions 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 June, 2010		Three months ended March 31, 2010		Three months ended June 30, 2009	
		%		%		%
Revenues	\$3,024,458	100%	\$3,506,997	100%	\$4,874,621	100%
Cost of sales	1,497,857	50%	1,390,866	40%	2,144,748	44%
Gross margin	\$1,526,601	50%	\$2,116,131	60%	\$2,729,873	56%

Gross margin percentage for the three months ended June 30, 2010 was 50%, which is lower with the gross margin for three months ended March 31, 2010 and three months ended June 30, 2009. The decrease over the prior period is due to decreased revenues attributable to the Company's Device Development Solutions team providing services at lower gross margins.

Operating Expenses

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Sales and marketing	\$ 399,111	\$ 615,221	\$ 744,602
Research and development	638,852	840,935	1,140,993
Administration	477,626	556,981	534,036
Amortization	290,889	288,856	339,417
Stock-based compensation	58,747	58,045	108,871
Technology Partnerships Canada Funding Investment	282,077	5,115	143,135
Restructuring	-	485,478	-
Loss (gain) on disposal of equipment	-	(2,150)	199,793
Total operating expenses	\$2,147,302	\$2,848,481	\$3,210,847
As a percentage of total revenue	71%	81%	66%

Total operating expenses for the Company for the three months ended June 30, 2010 decreased by 25% over the three months ended March 31, 2010 primarily due to operating efficiencies during the three months ended June 30, 2010. Also, the Company had recorded restructuring charges (comprising of employee separation costs) of approximately \$485,000 in the previous three months ended March 31, 2010.

Total operating expenses for the Company for the three months ended June 30, 2010 decreased by 33% over the three months ended June 30, 2009 primarily operating efficiencies during the three months ended June 30, 2010. In particular, sales and marketing activities decreased by approximately \$345,000, research and development costs decreased by approximately \$502,000 and administration expenses decreased by approximately \$56,000 over the same period in the prior year. TPC funding expense increased for the three months ended June 30, 2010 due to accrued costs related to the settlement agreement the Company had entered into.

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

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Sales and marketing	\$ 399,111	\$ 615,221	\$ 744,602
Research and development	638,852	840,935	1,140,993
Administration	477,626	556,981	534,036
Total operating expenses	\$1,515,589	\$2,013,137	\$2,419,631
As a percentage of total revenue	50%	58%	50%

Total operating expenses consisting of sales and marketing, research and development and administration decreased 25% for the three months ended June 30, 2010 as compared to the three months ended March 31, 2010 and decreased by 37% from approximately \$2.4 million for the three months ended June 30, 2009. In particular, sales and marketing activities decreased by approximately \$216,000, research and development costs decreased by approximately \$202,000 and administration expenses decreased by approximately \$79,000 over the prior quarter. Sales and marketing activities decreased by approximately \$345,000, research and development costs decreased by approximately \$502,000 and administration expenses decreased by approximately \$56,000 over the second quarter of 2009.

Sales and Marketing

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Sales and marketing	\$399,111	\$615,221	\$744,602
As a percentage of total revenue	13%	18%	15%

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.

Sales and marketing expense for the three months ended June 30, 2010 decreased by 35% to approximately \$399,000 from approximately \$615,000 for three months ended March 31, 2010 and decreased by 46% from approximately \$745,000 for the three months ended June 30, 2009.

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

Research and Development

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Research and development	\$638,852	\$840,935	\$1,140,993
As a percentage of total revenue	21%	24%	23%

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

Research and development expenses totalled approximately \$639,000 for the three months ended June 30, 2010 which was primarily related to the Company's Destinator product offering. This represents a decrease of 24% from approximately \$841,000 for the three months ended March 31, 2010. This also represents a decrease of 44% from approximately \$1.1 million for three months ended June 30, 2009.

The decrease in research and development costs during the three months ended June 30, 2010 over the prior year was attributable largely to a lower headcount. The Company had a total of 37 employees in its research and development department as at June 30, 2010 compared to 54 as at March 31, 2010 and 65 as at June 30, 2009.

Administration

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Administration	\$477,626	\$556,981	\$534,036
As a percentage of total revenue	16%	16%	12%

Administration expenses include executive and administrative staff, facilities, public company costs, insurance, corporate variable compensation accruals, accounting and legal fees as well as various general administrative costs.

Administration expenses for the three months ended June 30, 2010 were approximately \$478,000 representing a decrease of 14% from approximately \$557,000 for the three months ended March 31, 2010. The decrease was primarily due to operational efficiencies during the three months ended June 30, 2010.

Administration expenses for the three months ended June 30, 2010 decreased by 11% over the three months ended June 30, 2009 which was in the prior year was primarily due to a decrease in employee related costs, facility related overhead and a decrease of professional fees.

EBITDA

Earnings before amortization, stock-based compensation, TPC funding investment, restructuring and loss (gain) on disposal of equipment ("EBITDA") was approximately \$11,000 for the three months ended June 30, 2010 compared to approximately \$103,000 for the three months ended March 31, 2010 and approximately \$310,000 for the three months ended June 30, 2009.

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Loss before other expense (earnings) and income taxes	(\$620,701)	(\$732,350)	(\$480,974)
Less: Amortization	290,889	288,856	339,417
Less: Stock-based compensation	58,747	58,045	108,871
Less: TPC Funding Investment	282,077	5,115	143,135
Less: Restructuring charges	-	485,478	-
Less: Loss (gain) on disposal of equipment	-	(2,150)	199,793
EBITDA	\$ 11,012	\$ 102,994	\$ 310,242

The decrease in EBITDA over the prior quarter was primarily due to decreased revenues compared to the prior quarter. The decreased EBITDA for the three months ended June 30, 2010 compared to June 30, 2009 was primarily due to decreased revenues.

Other Items

	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Foreign exchange loss (gain)	(\$229,798)	\$198,295	\$310,261
Interest expense (income)	(10,194)	(6,602)	3,898
Other items	(\$239,992)	\$191,693	\$314,159

Other items for the three months ended June 30, 2010 totalled net other income of \$239,992 compared to net other loss of \$191,693 for the three months ended March 31, 2010 and net other loss of \$314,159 for the three months ended June 30, 2009. Net other income for the three months ended June 30, 2010 was attributable to a foreign exchange gain of \$229,798 and interest income of \$10,194.

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2010

The following analysis of the results of operations for the six months ended June 30, 2010 includes comparisons to the six-month period ended June 30, 2009.

Revenue

<i>Revenue by Source</i>	Six months ended June 30, 2010		Six months ended June 30, 2009		Change
		%		%	
Device Development Solutions	\$3,425,942	52%	\$4,787,422	52%	(28%)
Software Solutions	2,547,153	39%	3,836,483	41%	(34%)
Hardware	558,360	9%	651,523	7%	(14%)
Total revenue	\$6,531,455	100%	\$9,275,428	100%	(30%)

Revenue for the six months ended June 30, 2010 decreased by 30% to approximately \$6.5 million compared to the six month period ended June 30, 2009 which is attributable to decreased Device Development Solutions revenue due to the decline in outsourced development services provided to Symbian arising from the acquisition of Symbian by Nokia in late 2008 and a decrease in the Software Solutions inclusive of the EIS and Destinator product offerings. Revenue attributable to Software Solutions include license, maintenance, support and service revenues generated by the Company's software solutions initiatives.

During each of the six month periods ended June 30, 2010 and June 30, 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:

	Six months ended June 30, 2010	Six months ended June 30, 2009	Change
Revenue	\$2,840,521	\$3,895,592	(27%)
Percentage of total revenue	44%	42%	

The three customers accounting for 44% of the total revenue for the six months ended June 30, 2010 were not the same three customers that accounted for 42% of the total revenue for the six months ended June 30, 2009.

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

	Six months ended June 30, 2010		Six months ended June 30, 2009		Change
		%		%	
United States	\$4,561,032	70%	\$5,354,091	58%	(15%)
Latin America	757,677	12%	318,636	4%	138%
Europe	606,686	9%	2,177,506	23%	(72%)
Asia	359,665	6%	1,124,484	12%	(68%)
Canada	135,561	2%	98,816	1%	(2%)
Other	110,834	1%	201,895	2%	(45%)
Total revenue	\$6,531,455	100%	\$9,275,428	100%	(30%)

Gross Margin

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

	Six months ended June 30, 2010	%	Six months ended June 30, 2009	%	Change
Revenues	\$6,531,455	100%	\$9,275,428	100%	(30%)
Cost of sales	2,888,723	44%	4,425,363	48%	(35%)
Gross margin	\$3,642,732	56%	\$4,850,065	52%	(25%)

Gross margin for the six months ended June 30, 2009 decreased to approximately \$3.6 million, but increased from 52% of total revenue to 56% of total revenue. The increase over the prior period is due to increased efficiencies of Company's Device Development Solutions team providing services at higher gross margins.

Operating Expenses

	Six months ended June 30, 2010	Six months ended June 30, 2009	Change
Sales and marketing	\$1,014,332	\$1,888,517	(46%)
Research and development	1,479,787	2,504,082	(41%)
Administration	1,034,607	1,337,626	(23%)
Amortization	579,745	658,746	(12%)
Stock-based compensation	116,792	193,379	(40%)
Technology Partnerships Canada Funding Investment	287,192	278,069	3%
Restructuring	485,478	-	N/A
Loss (gain) on disposal of equipment	(2,150)	220,345	(101%)
Total operating expenses	\$4,995,783	\$7,080,764	(29%)
As a percentage of total revenue	76%	76%	

Total operating expenses for the Company for the six months ended June 30, 2010 decreased by 29% to approximately \$5.0 million compared to the six-month period ended June 30, 2009 operating expenses of approximately \$7.1 million. The decrease in total operating expenses was due to decreased costs in all areas of operations as well as negotiated concessions from several vendors during the period. While TPC funding expense was consistent compared to the six months ended June 30, 2009, the amount expensed during the six months ended June 30, 2010 were the costs related to the settlement agreement the Company had entered into while the amounts incurred in the six months ended June 30, 2009 related to accrued royalties.

Operating expenses expressed as a percentage of revenue was consistent in the six months ended June 30, 2010 with the six months ended June 30, 2009.

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

	Six months ended June 30, 2010	Six months ended June 30, 2009	Change
Sales and marketing	\$1,014,332	\$1,888,517	(46%)
Research and development	1,479,787	2,504,082	(41%)
Administration	1,034,607	1,337,626	(23%)
Total operating expenses	\$3,528,726	\$5,730,225	(38%)
As a percentage of total revenue	54%	62%	

Total operating expenses consisting of sales and marketing, research and development and administration decreased by 38% to approximately \$3.5 million for the six months ended June 30, 2010 from approximately \$5.7 million for the six months ended June 30, 2009. In particular, sales and marketing activities decreased by approximately \$874,000, research and development costs decreased by approximately \$1.0 million and administration expenses decreased by approximately \$303,000 over the comparable six-month period. The decrease for the six months ended June 30, 2010 over the prior year is the result of continued prudent cost management resulting in increased operating efficiencies in 2010.

Sales and Marketing

	Six months ended June 30 2010	Six months ended June 30, 2009	Change
Sales and marketing	\$1,014,332	\$1,888,517	(46%)
As a percentage of total revenue	16%	20%	

Total sales and marketing expenses for the six months ended June 30, 2010 decreased approximately \$874,000 or 46% when compared to the six months ended June 30, 2009. The decrease in sales and marketing expense was primarily due to a decrease in employee related costs, commissions, travel and entertainment, advertising and promotion and office costs.

Research and Development

	Six months ended June 30 2010	Six months ended June 30, 2009	Change
Research and development	\$1,479,787	\$2,504,082	(41%)
As a percentage of total revenue	22%	27%	

Research and development costs for the six months ended June 30, 2010 declined by approximately \$1.0 million or 41% over the six months ended June 30, 2009. The decrease was primarily due to prudent cost management resulting in increased operating efficiencies in 2010.

Administration

	Six months ended June 30, 2010	Six months ended June 30, 2009	Change
Administration	\$1,034,607	\$1,337,626	(23%)
As a percentage of total revenue	16%	15%	

General and administration expense for the six months ended June 30, 2010 decreased by approximately \$303,000 or 23% when compared to the six months ended June 30, 2009. This decrease is attributable to decreased salaries and benefits, travel, professional fees and general operating expenses.

EBITDA

Earnings before amortization, TPC funding investment, stock based compensation and loss (gain) on disposal of equipment ("EBITDA") was approximately \$114,000 for the six months ended June 30, 2010 compared to approximately (\$880,000) for the six months ended June 30, 2009. The improved EBITDA was due primarily to continued operational efficiencies during the six months ended June 30, 2010.

	Six months ended June 30, 2010	Six months ended June 30, 2009
Loss before other expense (earnings) and income taxes	(\$1,353,051)	(\$2,230,699)
Less:		
Amortization	579,745	658,746
Stock-based compensation	116,792	193,379
TPC Funding Investment	287,192	278,069
Restructuring	485,478	-
Loss (gain) on disposal of equipment	(2,150)	220,345
EBITDA	\$ 114,006	(\$ 880,160)

Other Items

	Six months ended June 30, 2010	Six months ended June 30, 2009
Foreign exchange loss (gain)	(\$31,503)	\$197,078
Interest expense (income)	(16,796)	(33,931)
Other items	(\$48,299)	\$163,147

Other items for the six months ended June 30, 2010 totalled net other income of \$48,299 compared to net other loss of \$163,147 for the six months ended June 30, 2009. Net other loss during the six months ended June 30, 2010 consisted of foreign exchange gain of \$31,503 and interest income of \$16,796. The decrease in interest income for the six month period ended June 30, 2010 over the prior year is attributable to decline in average treasury investment balance during the period in conjunction with reduction in interest rates for such investments.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at June 30, 2010, the Company had cash totaling approximately \$10.3 million, with working capital³ of \$10.9 million, as compared to cash of \$12.1 million and working capital of \$11.1 million as at March 31, 2010 and cash of \$10.6 million and working capital of \$9.9 million as at June 30, 2009.

Three Months ended June 30, 2010

Cash provided by (used in):	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended June 30, 2009
Operating activities	(\$ 1,665,188)	(\$ 8,262)	(\$ 1,032,999)
Investing activities	-	-	(3,075)
Financing activities	324,297	(7,039)	(8,561)
Effect of exchange rate changes on cash and cash equivalents	(508,944)	405,422	904,620
Increase (decrease) in cash and cash equivalents	(\$ 1,849,835)	\$390,121	(\$ 140,015)

Cash used by operating activities during the three months ended June 30, 2010 was \$1,665,188 compared to cash used in operations of \$8,262 during the three months ended March 31, 2010 and cash used in operations of \$1,032,999 during the three months ended June 30, 2009.

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

There were no investing activities during the three months ended June 30, 2010 and March 31, 2010. Cash used in investing activities for the three months ended June 30, 2009 was \$3,075 which was attributable to the purchase of equipment.

During the three months ended June 30, 2010 cash provided by financing activities primarily consisted of the release of the restricted cash in the amount of \$97,248 (CDN\$100,000) and included the long term portion of the TPC settlement in the amount of \$234,282 offset by the repayments for capital lease obligations totalling \$7,233. During the three months ended March 31, 2010 and June 30, 2009, cash used by financing activities was attributable primarily to repayments for capital lease obligations.

Six Months ended June 30, 2010

Cash provided by (used in):	Six months ended June 30, 2010	Six months ended June 30, 2009
Operating activities	(\$1,673,450)	(\$2,205,845)
Investing activities	-	(25,941)
Financing activities	317,258	(51,214)
Effect of exchange rate changes on cash and cash equivalents	(103,522)	495,622
Increase (decrease) in cash and cash equivalents	(\$1,459,714)	(\$1,787,378)

³ Working Capital is a non-generally accepted accounting principle ("GAAP") measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. Working capital is defined as current assets less current liabilities.

As a result of continued prudent cost management, the Company has reduced the cash used in operating activities in the six months ended June 30, 2010 to \$1.7 million, a decrease of 24% over the six-month period ended June 30, 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.

There was no investing activity for the six months ended June 30, 2010. Cash used in investing activities for the six months ended June 30, 2009 was approximately \$26,000 which was attributable to the purchase of equipment.

During the six months ended June 30, 2010, cash provided by investing activities was the release of the restricted cash and included the long term portion of the TPC settlement offset by repayments for capital lease obligations. During the six months ended June 30, 2009, cash used by financing activities was attributable primarily to repayments for capital lease obligations.

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 weakening 5% during the three months ended June 30, 2010, cash and cash equivalents decreased by approximately \$509,000. Due to the Canadian dollar weakening 1% during the six months ended June 30, 2010, cash and cash equivalents decreased by approximately \$104,000. The Company maintains the majority of its treasury investments in lower risk investments including Government of Canada treasury bills and investments held with tier one Canadian chartered banks. The recent volatility experienced in the public capital markets and economy has not directly impacted the Company's treasury investment portfolio or financial results during the three and six months ended June 30, 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 material decline in the overall global economy in 2009 has significantly impacted the software industry in which the Company operates, resulting in increased potential risk of customer payment issues and vendors demanding more aggressive terms, which may adversely impact the working capital and financial position of the Company. The Company may no longer have access to historical funding sources consisting of credit facilities and public offerings due to the current economic environment, resulting in the Company having to fund future operations with its current working capital and future revenue stream cash flow.

STAFFING LEVELS

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

	As at June 30, 2010	As at March 31, 2010	As at June 30, 2009
Service engineers	46	51	73
Sales and marketing	6	7	15
Research and development	37	54	65
Administration	9	10	18
Total	98	122	171

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 June 30, 2010 are as follows for the years ending December 31:

Contractual Obligations	Total	F2010	F2011	F2012	F2013	F2014	F2015
Operating lease obligations	\$1,918,672	\$360,032	\$322,877	\$315,514	\$315,514	\$315,514	\$289,221

GOVERNMENT ASSISTANCE

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

Under agreements with the ITO, the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of \$3.6 million (CDN \$3.8 million) in contributions during the term of the agreement. In exchange for these contributions, the Company has agreed to pay royalties on future revenue. Royalties are calculated at a rate of 3% of annual revenue over CDN \$10.0 million until August 31, 2011. To date, the Company has paid approximately \$1,439,532 (CDN \$1,532,526) to ITO in royalties.

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

The Company has received correspondence from the Industrial Technology Office (“ITO” formerly “TPC”) indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and that an invoice will be issued to the Company for approximately CDN \$929,183 in addition to the already recorded CDN \$22,063.

The Company, on August 10, 2010, entered into an agreement to terminate its Technology Partnerships Canada (“TPC”) funding agreement. This termination agreement 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 (see above). The Company has recorded the amount payable under this termination agreement in the three month period ended June 30, 2010

Industrial Research Assistance Program (“IRAP”)

Effective June 15, 2009, the Company entered into an agreement with the National Research Council Canada (“NRC”) under its Industrial Research Assistance Program (“IRAP”). Under this agreement, the NRC 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.” Payment for claims totalling \$36,479 (CDN \$38,836) for January, February and March which were accrued as of March 31, 2010 were received in April and May 2010.

Export Development Canada (“EDC”)

On July 31, 2009, the Company entered into an agreement with Export Development Canada (“EDC”) whereby EDC would provide insurance for the Company’s invoiced sales for a premium of anywhere from CDN \$0.32 to CDN \$0.78 per CDN \$100 of monthly invoiced sales (certain customers are excluded from this coverage). The policy period 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 the three and six months ended June 30, 2010, the Company recorded total premiums of \$7,319 (CDN \$7,527) and \$16,931 (CDN \$17,410) in sales and marketing [CDN \$nil – three and six months ended June 30, 2009]. As of June 30, 2010, a total of \$3,583 (CDN

\$3,814) in premiums were outstanding and recorded under “Accounts payable and accrued liabilities.” To date, the Company continues to have a claims free history.

INTANGIBLE ASSETS IMPAIRMENT

Due to ongoing operating losses of the Company and current volatility and uncertainty of global financial markets, there is a possibility that the carrying values attributable to the Company’s intangible assets may become impaired. The recorded balance of intangible assets is \$3,394,315 as at June 30, 2010. Through the Destinator acquisition in July 2008, the Company identified \$13,698,000 in intangible assets. The Company completed an impairment analysis as at June 30, 2010 of its intangible assets and determined that no further impairment existed.

OFF-BALANCE SHEET ARRANGEMENTS

None.

TRANSACTIONS WITH RELATED PARTIES

None.

PROPOSED TRANSACTIONS

None.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Intrinsyc prepares its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an on-going basis and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions. Significant estimates include, but are not limited to, the determination of project expenditures for contracts accounted for on the percentage of completion basis, allowance for doubtful accounts, income tax valuation allowances, goodwill impairment tests and the useful lives and valuation of intangible assets. The Company’s significant accounting policies are described in Note 2 to the December 31, 2009 consolidated financial statements as at and for the twelve-month period then ended.

Revenue Recognition

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

The Company also enters into contracts that are primarily fixed fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems, because these services are essential to the functionality of other elements in the arrangement. Under this method, revenue is recognized using the

percentage of completion method and is calculated based on actual hours incurred compared to the estimated total hours for the services under the arrangement, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer.

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

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

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

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

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

Allowance for Doubtful Accounts

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

Income Taxes

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

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

Intangible assets

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

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

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

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

Based on anticipated cash flows to be generated from such intangible assets the Company had assessed that there was no impairment of such intangible assets for the six months ended June 30, 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 not fully determined the impact of adopting this standard.

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

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

Accounting Standards

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

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

- Initial diagnostic phase – Involves preparing a preliminary impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact the Company’s reporting and the overall difficulty of the conversion effort. During the first quarter of fiscal 2010, Management reviewed its preliminary impact assessment with the Audit Committee and periodic updates of progress made against the Company’s transition plan will continue for the remainder of the year.
- 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 the second quarter of fiscal 2010, Management continued to review the transitional policy choices available under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and the impact of IFRS adoption will be quantified in order to prepare a preliminary IFRS opening balance sheet as at January 1, 2010. The Company completed its review of transitional policy choices to be completed in the third quarter of fiscal 2010.
- Implementation and review phase – Involves training key finance and other personnel and implementation of the required changes to our information systems and business policies and procedures. It will enable the Company to collect the financial information necessary to prepare IFRS financial statements and obtain audit committee approval of IFRS financial statements. . This phase is ongoing and will continue for the remainder of the year.

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 processes, including the application of IFRS 1 <i>First Time Adoption of International Financial Reporting Standards</i> .	Complete.
Final determination of changes to accounting policies and choices to be made with respect to first time adoption alternatives.	In progress, completion expected during Q3 2010.
Resolution of the accounting policy change implications on information technology, business processes and contractual arrangements.	In progress, completion expected during Q4 2010.
Quantification of the financial statement impact of changes in accounting policies.	Throughout 2010.
Management and employee education and training.	Throughout the transition process.

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. Key finance and operational staff were trained in IFRS starting in the second quarter of 2010.

The Company also held an IFRS information session with the Audit Committee members, as part of the meeting to approve the 2009 annual financial statements. During this session, management and external consultants provided a review of the timeline for implementation, the implications of IFRS standards to the Company's business and an overview of the impact to the financial statements. As a result of the information session, the Audit Committee members will review the Audit Committee Charter and make any necessary changes to reflect the requirements for IFRS financial expertise. The Audit Committee will continue to receive quarterly presentations and project status updates from management.

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

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

i) Financial Statement Presentation

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

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

ii) Deferred taxes

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

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

iii) Provisions

IFRS: a provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and require additional disclosure. Provisions are also classified as current or non-current as appropriate (IAS 37 - Provisions and other liabilities). **Canadian GAAP:** Accounts payable, accrued liabilities and provisions 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 any additional disclosures will be provided pursuant to IAS 37.*

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

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

i) Business combinations:

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

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

ii) 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 will elect 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 will elect to reset cumulative translation gains and losses to zero at January 1, 2010.*

iv) Designation of previously recognized financial instruments:

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

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

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

i) 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 does not expect that this will have a 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 discounted present values of the Company’s intangible assets, as determined under CICA Handbook Section 3061, were in excess of the carrying values as at December 31, 2009. During Phase II the Company will recalculate the recoverable amounts of its intangible assets using the IAS 36 methodology to determine whether an impairment must be recognized at January 1, 2010 and at December 31, 2010 and for the year then ended, if any.*

iii) Impairment provision reversals

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

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

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

iv) Share based compensation

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

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

v) Revenue recognition

Multiple element arrangements:

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

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

Service arrangements:

The Company also enters into contracts that are primarily fixed fee arrangements to render specific consulting and software modification services. The percentage of completion method is applied to these more complex contracts that involve the provision of services relating to the design or building of complex systems, because these services are essential to the functionality of other elements in the arrangement. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized when final acceptance is received by the Company from the customer. Under IAS 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 believes that its existing policy will be acceptable under IFRS but will re-evaluate the application of the specific criteria under Canadian to determine whether they give rise to differences for the purpose of transition to IFRS.*

vi) Functional currency

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

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

vii) Change in reporting currency

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

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

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

E) Impact on Systems and Processes

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

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company has classified cash and cash equivalents and restricted cash as held-for-trading financial assets, measured at fair value. Accounts receivable is classified as loans and receivables, measured at amortized cost. Accounts payable and accrued liabilities, 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 June 30, 2010 and December 31, 2009 are summarized as follows:

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-for-trading	\$ 10,250,513	\$ 10,250,513	\$ 11,710,227	\$ 11,710,227
Loans and receivables	\$ 3,113,704	\$ 3,113,704	\$ 3,401,467	\$ 3,401,867
Other liabilities	\$ 2,400,757	\$ 2,400,757	\$ 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 June 30, 2010 and December 31, 2009, the Company's exposure to credit risk for these financial instruments was as follows:

	June 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 10,250,513	\$ 11,710,227
Accounts receivable	3,113,704	3,401,467
	\$ 13,364,217	\$ 15,111,694

Accounts receivable was aged as follows as at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Current	\$ 2,604,066	\$ 3,211,666
31-60 days	317,591	162,947
Over 60 days	192,047	26,854
	\$ 3,113,704	\$ 3,401,467

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 June 30, 2010 balances would have an approximate \$581,000 impact on net income. A 10% change in the Chinese Yuan to Canadian dollar exchange rate on the June 30, 2010 balances would have an insignificant impact on net income. The Company may purchase foreign exchange forward contracts to hedge sales to customers and expenditures expected to occur in the near future in U.S. dollars. The purpose of the Company's hedging activities is to reduce the level of exposure to exchange rate movements. As at June 30, 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 \$1.5 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 June 30, 2010 to determine how a change in interest rates would impact equity and net earnings. During the three months ended June 30, 2010, the Company earned \$10,585 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 period would have increased or decreased net earnings by approximately \$112,000. 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 August 12, 2010, the Company has 163,259,070 common shares outstanding and no preference shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect the lesser of (i) 10% less 1 share of the issued and outstanding common shares of the Company from time to time; and (ii) 30,000,000 common shares of the Company. As of August 12, 2010, the Company is entitled to grant incentive stock options for 16,325,906 common shares under the Company's stock option plan. Presently, a total of 9,595,885 options are issued and outstanding. Also, 2,284,968 common shares are reserved for issuance pursuant to outstanding warrants.

RISKS AND UNCERTAINTIES

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

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

Worsened General Economic Conditions

The decline in the global economic environment in 2009 and ongoing economic instability in certain parts of the world result 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 product the Company develops are not successful, the Company's business could be harmed. Even if the Company does develop new products which are accepted by its target markets, the Company cannot assure that the revenue from these products will be sufficient to justify the Company's investment in research and development.

Major Industry Software Vendor Partners May Become Competitors

The Company relies on software developed by 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 June 30, 2010, the Company had an accumulated deficit of approximately \$104.8 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable.

Stock Price Volatility

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

Product Development and Technological Change

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

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

Sales and Marketing and Strategic Alliances

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

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

Dependence on a Small Number of Customers

The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. During the three and six months ended June 30, 2010, approximately 45% and 44% of the Company's consolidated revenue was attributable to its largest three customers. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Company. Moreover, the success of the Company will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

Length of Sales Cycle

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

Intellectual Property Protection

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

Competition

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

International Business Operations

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

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

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

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

Foreign Exchange Risk

A substantial portion of the Company's sales are denominated in U.S. dollars and are made to U.S.-based customers. Because the Company's operations are based in Canada, United States, Taiwan and China, the Company is exposed to risks associated with fluctuations in the exchange rate between the U.S. dollar, Chinese Renminbi, New Taiwan dollar and Canadian dollar. If the Canadian dollar, New Taiwan dollar or Chinese 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 six months ended June 30, 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 June 30, 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.

FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS

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

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Intrinsic Software International, Inc. (the “issuer”) for the interim period ended June 30, 2010.

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

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

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

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

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

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

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

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

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on January 1, 2010 and ended on June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: August 12, 2010

“Tracy Rees”
Tracy Rees
Chief Executive Officer

FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS

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

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Intrinsic Software International, Inc. (the “issuer”) for the interim period ended June 30, 2010.

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

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

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

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

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

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

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

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

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on January 1, 2010 and ended on June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: August 12, 2010

“George Reznik”
George Reznik
Chief Financial Officer