



INTRINSYC SOFTWARE INTERNATIONAL, INC.

QUATERLY REPORT

Third Quarter Fiscal 2011

For the three and nine months ended September 30, 2011 and 2010

Chief Executive Officer Letter

I am pleased to report that for the third quarter, ending September 30, 2011, the Company achieved significant improvement in revenue with 15 percent sequential revenue growth, including 24 percent in our core product development services, as well as strong financial results, including positive EBITDA and net income. The achievement of positive net income is a significant milestone in the company's history.

The company continues to leverage its strong capabilities in Android and Windows embedded device development; winning new mobile handhelds and tablet device customers during the quarter. The demand for our services resulted in very high utilization of our engineering resources during the quarter and contributed substantially to our improvement in gross margin.

This is the tenth consecutive quarter that we achieved positive EBITDA, with a total of approximately \$2.1 million EBITDA generated during this period with \$718,033 being generated for the nine months ended September 30, 2011. We also reported net income after tax for the three and nine months period ended September 30, 2011 of \$627,106 and \$45,343, respectively.

The Company reported third quarter revenue of approximately \$2.8 million as compared to approximately \$2.4 million for the three months ended June 30, 2011 and approximately \$3.2 million in the period ended September 30, 2010. Total revenue attributable to the Company's Software Solutions was 25 percent of revenues, including software licensing, maintenance/support and software-related services, as compared to 30 percent and 24 percent in the respective comparative quarters. Gross margin was 56 percent during the third quarter of 2011, which was higher than 50 percent for the three months ended June 30, 2011 and up slightly from the margin experienced of 55 percent for the three months ended September 30, 2010.

Total operating expenses, excluding other operating expenses, for the three months ended September 30, 2011 were 6 percent lower over the preceding three months ended June 30, 2011 and 36 percent lower over the three months ended September 30, 2010. Earnings before other operating expenses, finance income and foreign exchange gain (loss) ("EBITDA") for the three months ended September 30, 2011 was \$452,121 compared to \$53,776 in the previous three months ended June 30, 2011 and \$62,711 for the three months ended September 30, 2010. Cash and cash equivalents were approximately \$7.3 million and short-term investments were approximately \$4.2 million with net working capital of approximately \$11.8 million as of September 30, 2011, compared to cash and cash equivalents of approximately \$11.2 million with net working capital of approximately \$11.6 million as of December 31, 2010.

Notable developments and achievements during the third quarter included the following:

- Signed four (4) new customer projects for product development services with industry leading OEMs.
- Enhanced its iQ machine-to-machine ("M2M") Development Kit with an expanded software suite and services bundle to be sold as the iQ M2M Jump Start Kit.
- Added five (5) new iQ Kit customers, bringing the total to seventeen (17) customers.
- Began the first shipment of the "Internet of Everything" wireless modules in limited production quantities.
- In October, announced a collaborative relationship with the Senoma Group that is intended to accelerate the company's growth, through the pursuit of complementary strategic opportunities.

When I became CEO of Intrinsic in 2009, the Company had a fairly limited focus on the mobile phone market, with emphasis on Intrinsic's Soleus™ and Symbian's phone platforms. The introduction of free Android software ended the viability of these platforms and was extremely disruptive to the company. At the same time we were restructuring the

company to improve operational efficiency and preserve capital; we quickly repositioned the company to become a leader in Android and the emerging tablet/e-reader markets.

The company is continuing its transformation from a relatively narrow market focus and limited solution set, to a broader solution offering, and a more expansive market opportunity. We are in the early stages of expanding our offering beyond simply providing platform engineering services to include; development kits, reference designs, enabling software, application development, and turnkey product development and solutions. These solutions will not only address mobile handsets and tablet devices, but also a much broader market of intelligent connected devices. Included in the category of intelligent connected devices are M2M devices including devices for: telematics, fleet management, smart grid, wireless health and fitness, and many additional markets. Industry projections forecast 50 billion intelligent connected devices by 2020.

We believe that our broader offering and markets will provide more value to our customers, increase scalable revenue opportunities for the company, and ultimately provide benefit for our shareholders. While we are enthusiastic in our pursuit of these new opportunities, we remain committed to maintaining a low-risk profile and prudent use of the company's capital. During the fourth quarter and early part of next year we will be sharing more information on our new technology partnerships and solutions.

Sincerely,

A handwritten signature in black ink that reads "Tracy Rees". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Tracy Rees
President and Chief Executive Officer
November 10, 2011

INTRINSYC SOFTWARE INTERNATIONAL, INC.

For the Three and Nine Months Ended September 30, 2011

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indication that financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

A handwritten signature in black ink, appearing to read 'G. Reznik', is positioned above the typed name.

George W. Reznik
Chief Financial Officer
November 10, 2011

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Interim Condensed Consolidated Statements of Financial Position

(Unaudited and expressed in U.S. dollars)

As at	September 30, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,296,190	\$ 11,152,439
Short-term investments	4,214,987	-
Trade and other receivables (notes 5 and 13)	1,826,639	2,992,007
Inventory	18,553	26,208
Prepaid expenses (note 11(b))	412,289	162,336
	13,768,658	14,332,990
Non-Current Assets		
Prepaid expenses (note 11(b))	58,321	44,551
Equipment (notes 7 and 13)	302,352	549,945
Intangible assets (note 6)	134,569	580,434
Total assets	\$ 14,263,900	\$ 15,507,920
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade and other payables (notes 12 and 15)	\$ 1,328,969	\$ 2,164,951
Technology Partnerships Canada (note 8)	71,551	72,561
Finance lease obligations (note 9)	-	7,818
Deferred revenue	540,484	471,285
	1,941,004	2,716,615
Technology Partnerships Canada (note 8)	180,102	179,162
Total liabilities	2,121,106	2,895,777
Shareholders' equity		
Share capital (note 10)	108,288,585	108,288,585
Other capital reserves	9,703,262	9,566,250
Translation of foreign operations reserve	143,280	794,984
Deficit (note 19)	(105,992,333)	(106,037,676)
Total shareholders' equity	12,142,794	12,612,143
Total liabilities and shareholders' equity	\$ 14,263,900	\$ 15,507,920

Commitments and contingencies (note 11)

Transition to International Financial Reporting Standards (note 19)

See accompanying notes to interim condensed consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Interim Condensed Consolidated Statements of Operations and Deficit

(Unaudited and expressed in U.S. dollars)

For the	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Continuing Operations				
Revenues <i>(note 13)</i>	\$ 2,774,842	\$ 3,244,199	\$ 7,743,237	\$ 9,775,654
Cost of sales	1,227,974	1,461,819	3,565,349	4,350,542
	1,546,868	1,782,380	4,177,888	5,425,112
Expenses				
Sales and marketing	493,399	484,480	1,521,215	1,498,812
Research and development	36,657	478,510	272,635	1,958,297
Administration	564,691	756,679	1,666,005	1,791,286
Other operating expenses <i>(note 14)</i>	236,403	331,230	996,463	1,712,007
	1,331,150	2,050,899	4,456,318	6,960,402
Operating Income (Loss) before other expense (earnings) and income taxes	215,718	(268,519)	(278,430)	(1,535,290)
Other earnings (expenses)				
Foreign exchange gain (loss)	385,332	(129,586)	251,816	(98,083)
Finance income	26,056	19,462	72,744	36,258
	411,388	(110,124)	324,560	(61,825)
Operating Income (Loss) before income taxes	627,106	(378,643)	46,130	(1,597,115)
Income tax recovery (expense) – current	-	1,187	(787)	70,416
Net Income (Loss) for the period	627,106	(377,456)	45,343	(1,526,699)
Deficit, beginning of period <i>(note 19)</i>	(106,619,439)	(102,859,109)	(106,037,676)	(101,709,866)
Deficit, end of period <i>(note 19)</i>	(\$105,992,333)	(\$103,236,565)	(\$105,992,333)	(\$103,236,565)
Income (Loss) per share (basic)	\$0.00	\$0.00	\$0.00	(\$0.01)
Income (Loss) per share (fully diluted)	\$0.00	\$0.00	\$0.00	(\$0.01)
Weighted average number of shares outstanding – basic <i>(note 10)</i>	163,259,070	163,259,070	163,259,070	163,259,070
Weighted average number of shares outstanding – fully diluted <i>(note 10)</i>	168,195,900	163,259,070	168,187,974	163,259,070

See accompanying notes to unaudited interim consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Interim Condensed Consolidated Statements of Comprehensive Loss

(Unaudited and expressed in U.S. dollars)

For the	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net income (loss) for the period	\$ 627,106	(\$ 377,456)	\$ 45,343	(\$1,526,699)
Other comprehensive income (loss):				
Translation of foreign operations reserve	(1,042,131)	506,902	(651,704)	330,455
Comprehensive income (loss)	(\$ 415,025)	\$ 129,446	(\$606,361)	(\$1,196,244)

See accompanying notes to unaudited interim consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.
Interim Condensed Consolidated Statements of Changes in Equity

(Unaudited and expressed in U.S. dollars)

	Share Capital	Other Capital Reserves	Deficit	Translation of Foreign Operations Reserve	Total Shareholder's Equity
Balance, January 1, 2011	\$108,288,585	\$ 9,566,250	(\$106,037,676)	\$ 794,984	\$12,612,143
Total comprehensive income for the period	-	-	223,744	-	223,744
Share-based compensation	-	27,050	-	-	27,050
Translation of foreign operations	-	-	(323,982)	323,982	-
Balance, March 31, 2011	\$108,288,585	\$ 9,593,300	(\$106,137,914)	\$ 1,118,966	\$12,862,937
Total comprehensive loss for the period	-	-	(415,080)	-	(415,080)
Share-based compensation	-	49,000	-	-	49,000
Translation of foreign operations	-	-	(66,445)	66,445	-
Balance, June 30, 2011	\$108,288,585	\$ 9,642,300	(\$106,619,439)	\$ 1,185,411	\$12,496,857
Total comprehensive loss for the period	-	-	(415,025)	-	(415,025)
Share-based compensation	-	60,962	-	-	60,962
Translation of foreign operations	-	-	1,042,131	(1,042,131)	-
Balance, September 30, 2011	\$108,288,585	\$ 9,703,262	(\$105,992,333)	\$ 143,280	\$12,142,794
Balance, January 1, 2010	\$108,288,585	\$ 9,466,400	(\$101,709,866)	\$ -	\$16,045,119
Total comprehensive loss for the period	-	-	(318,155)	-	(318,155)
Share-based compensation	-	(14,561)	-	-	(14,561)
Translation of foreign operations	-	-	(535,236)	535,236	-
Balance, March 31, 2010	\$108,288,585	\$ 9,451,839	(\$102,563,257)	\$ 535,236	\$15,712,403
Total comprehensive loss for the period	-	-	(1,007,535)	-	(1,007,535)
Share-based compensation	-	45,073	-	-	45,073
Translation of foreign operations	-	-	711,683	(711,683)	-
Balance, June 30, 2010	\$108,288,585	\$ 9,496,912	(\$102,859,109)	(\$ 176,447)	\$14,749,941
Total comprehensive loss for the period	-	-	129,446	-	129,446
Share-based compensation	-	44,514	-	-	44,514
Translation of foreign operations	-	-	(506,902)	506,902	-
Balance, September 30, 2010	\$108,288,585	\$ 9,541,426	(\$103,236,565)	\$ 330,455	\$14,923,901

See accompanying notes to interim condensed consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited and expressed in U.S. dollars)

For the	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash flows from operating activities				
Net income (loss) for the period	\$ 627,106	(\$377,456)	\$ 45,343	(\$1,526,699)
Adjustments to reconcile net loss before tax to net cash flows:				
Amortization (notes 6 and 7)	175,441	286,716	586,141	866,461
Non-cash interest (note 8)	3,670	4,502	13,726	4,502
Share-based compensation	60,962	44,514	137,012	75,026
Non-cash restructuring (note 15)	-	-	98,124	-
Settlement with Technology Partnerships Canada (note 8)	-	-	-	307,218
	867,179	(41,724)	880,346	(273,492)
Working capital adjustments:				
Trade and other receivables	(95,287)	(191,769)	1,086,808	48,742
Inventory	(1,777)	24,042	6,704	11,864
Prepaid expenses	(398,951)	(69,449)	(292,180)	100,804
Trade and other payables	126,920	140,273	(783,707)	(1,368,422)
Deferred revenue	78,169	1,900	102,297	(95,391)
	(290,926)	(95,003)	119,922	(1,302,403)
Net cash flows from operating activities	576,253	(136,727)	1,000,268	(1,575,895)
Cash flows from investing activities				
Redemption (purchase) of short-term investments	(1,528,162)	-	(4,471,860)	-
Purchase of equipment	-	(69,783)	(2,059)	(69,783)
Cash provided by (used in) investing activities	(1,528,162)	(69,783)	(4,473,919)	(69,783)
Cash flows from financing activities				
Repayment of capital lease obligation (note 9)	-	(24,109)	(7,890)	(38,381)
Restricted cash (note 4)	-	-	-	97,248
Cash provided by (used in) financing activities	-	(24,109)	(7,890)	58,867
Effect of exchange rate changes on cash and cash equivalents	(649,256)	352,281	(374,708)	248,759
Increase (decrease) in cash and cash equivalents	(1,601,165)	121,662	(3,856,249)	(1,338,052)
Cash and cash equivalents, beginning of period	8,897,355	10,250,513	11,152,439	11,710,227
Cash and cash equivalents, end of period	\$7,296,190	\$10,372,175	\$7,296,190	\$10,372,175
Supplementary information				
Interest received	\$27,408	\$21,928	\$79,290	\$39,603
Income taxes paid	\$ -	\$ -	\$ 787	\$70,756 ⁵

See accompanying notes to unaudited interim consolidated financial statements

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

1. REPORTING ENTITY

Intrinsyc Software International, Inc. (“Intrinsyc” or the “Company”) is a public company domiciled in Canada and 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 Intrinsyc Software, Inc. to Intrinsyc Software International, Inc. As of October 15, 2011, the Company’s principal business office is Suite 380, 885 Dunsmuir Street, Vancouver, British Columbia, V6C 1N5 and its registered office is Suite 800, 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

Intrinsyc 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. 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 interim condensed consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2011 and September 30, 2010 comprise the Company and its subsidiaries (together referred to as the “Company” and individually as “Company entities”).

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed consolidated financial statements of the Company, approved by the Board of Directors on November 9, 2011, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations adopted by the International Accounting Standards Board (“IASB”).

The Company previously prepared its financial statements in accordance with generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed consolidated financial statements. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 19, these condensed consolidated financial statements have been prepared using the historical cost basis and the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 19 discloses the impact of transition to IFRS on the Company’s reported financial positions, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed consolidated financial statements are based on IFRS issued and outstanding as of September 30, 2011. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

2. BASIS OF PRESENTATION (cont'd)

condensed consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements.

Principles of Consolidation

Subsidiaries are entities controlled by Intrinsyc. The financial statements of subsidiaries are included in the condensed consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated financial statements.

The accompanying condensed consolidated financial statements include the accounts of Intrinsyc Software International, Inc. and the following subsidiaries:

Company entity	Country of incorporation	Ownership interest 2011	Ownership interest 2010
Intrinsyc Software (USA), Inc.	U.S.	100%	100%
Intrinsyc Europe Limited	U.K.	100%	100%
Intrinsyc Software Holdings, Inc.	Canada	100%	100%
Intrinsyc Software (Israel) Ltd.	Israel	100%	100%
Intrinsyc Software (Beijing) Inc.	China	100%	100%

Use of Estimates

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- [a] The recoverability of trade and other receivables and which are included in the condensed consolidated statements of financial position;

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- [b] The estimated useful lives of equipment which are included in the condensed consolidated statements of financial position and the related depreciation included in the condensed consolidated statements of operations and deficit;
- [c] The estimated useful lives of intangible assets which are included in the condensed consolidated statements of financial position and the related depreciation included in the condensed consolidated statements of operations and deficit. 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;
- [d] The inputs used in accounting for share-based payment expense in the condensed consolidated statements of operations and deficit; and
- [e] The provision for income taxes which is included in the condensed consolidated statements of operations and deficit and the composition of deferred income tax assets and liabilities included in the condensed consolidated statements of financial position.

Foreign Currency

Foreign Currency Translation:

The condensed consolidated financial statements are presented in U.S. dollars. Effective January 1, 2008, the Company changed its reporting currency to the U.S. dollar from the Canadian dollar to enhance comparability of the Company's results with other publicly traded companies in the industry. The functional currency of the Company is the Canadian dollar. Each subsidiary determines its own functional currency. Management has determined that each of the subsidiary's functional currency is the Canadian dollar.

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognized in profit or loss.

The assets and liabilities, including fair value adjustments arising on acquisition, are translated into the reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated into the reporting currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in translation of foreign operations reserve.

Revenues

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Unbilled Revenue

Unbilled revenue represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Where income recognized exceeds payments received from customers, the difference is presented as part of trade and other receivables in the statement of financial position. Where payments received from customers exceed income recognized, the difference is presented as deferred revenue in the statement of financial position.

Research and Development

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Government Grants

Government grants are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognized as an adjustment to research and development expense on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in profit and loss on a systematic basis over the useful life of the asset.

Cash and Cash Equivalents

Cash and 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 less than three months when acquired and are carried at fair value.

Short-Term Investments

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 greater than three months but less than one year when acquired and are carried at fair value.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts related to trade and other receivables that are considered to be uncollectible. The allowance is based on the Company's knowledge of the financial condition of its customers, the

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

aging of the receivables, the current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts.

Equipment

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When significant parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net within other income in profit or loss. The cost of replacing a part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized immediately in profit or loss.

Depreciation is calculated over the depreciable amount, which is the cost of an asset or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss over the estimated useful lives of equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonable certain that the Company will obtain ownership by the end of the lease term

The Company rates for depreciation are as follows:

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

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible Assets

Intangible assets acquired either individually or with a group of other assets are initially recognized or 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.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Amortization is subsequently provided on a straight line basis over the following periods:

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

Due to the change in estimates in the future economic life of the intangible assets, the amortization periods (except for computer software) were reduced to one year to reflect the estimated future cash flows derived from the use of the intangible assets. This change was introduced at the year ended December 31, 2010 and effective beginning January 1, 2011.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are issued, the amount received is recognized as an increase in equity.

Share-Based Payment Transactions

The Company grants stock options to directors, officers, employees, service providers and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The grant date fair value of options granted to directors, officers, employees, consultants and service providers is recognized as share-based payment expense, with a corresponding increase in equity, over the period that the individual becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the number of share options for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. No provision is made for future operating losses.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected cost net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognized using the statement of financial position method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future tax profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Comprehensive Income

Comprehensive income or loss includes unrealized gains and losses on any available-for-sale investments, none of which are included in the calculation of net income until realized.

Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for its own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for its own shares held, for the effects of all dilutive potential common shares. A dilutive share capital quantification was performed for the three and nine months ended September 30, 2011 as the Company was in a net income position for the periods above.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial Instruments

Financial Assets

From time-to-time, the Company may have the following non-derivative financial assets: financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity financial assets, trade and other receivables and cash and cash equivalents. Management determines the appropriate classification upon initial recognition. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or losses, directly attributable transaction costs.

Financial Assets at Fair Value through Profit or Loss:

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has not designated any financial assets upon initial recognition as at fair value through profit or losses.

Available-for-Sale Financial Assets:

Any investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

Held-to-Maturity Financial Assets:

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The Company did not have any held-to-maturity financial assets for the periods presented.

Loans and Accounts Receivable:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and accounts receivables comprise trade and other receivables.

Financial Liabilities

From time-to-time the Company may have the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized costs using the effective interest method.

Classification

Financial instruments recorded at fair value on the condensed consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Impairment

Financial Assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Non-Financial Assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets which are separately assessed, are reviewed each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect to goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Segment Reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segment results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related income, corporate assets and head office expenses, and income tax assets and liabilities.

Segment capital expenditures are the total cost incurred during the period to acquire non-current assets, other than financial instruments and deferred tax assets.

New Standards and Interpretations Not Yet Adopted

Certain new standards, amendments to standards, and interpretations are not yet effective for the current reporting period, and therefore have not been applied in preparing the condensed consolidated financial statements:

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The standard introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

consolidated financial statements for the period beginning January 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 9.

Classification of rights issues (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice requires such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after February 1, 2010, and earlier application is permitted. Management has determined that there is no financial impact as this standard is not applicable to the Company.

Prepayments of a minimum funding requirement (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning January 1, 2011, and earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. Management has determined that there is no financial impact as this standard is not applicable to the Company.

IFRIC 19, Extinguishing financial liabilities with equity instruments. This clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010, and earlier application is permitted. Management has determined that there is no financial impact as this standard is not applicable to the Company.

4. RESTRICTED CASH

During 2008, as part of a settlement the Company had with one of its vendors, the Company agreed to pay \$572,410 (CDN \$600,000) cash as well as paying \$190,804 (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 \$763,214 (CDN \$800,000). The shares were issued on November 27, 2008. The shares were subject to a 4-month hold period from date of issue and required orderly liquidation of the shares on a basis restricted to 25% of the total volume during any 6-month period unless previously approved by the Company. The Company guaranteed that a minimum of \$95,402 (CDN \$100,000) would be received from the sale of shares. As such, the Company placed \$95,402 (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 \$95,402 (CDN \$100,000), such dispositions would be offset by payment from such funds held in trust. During the three months ended June 30, 2010, all 1,250,000 shares had been liquidated by the vendor for total proceeds of \$77,189 (CDN \$80,909). As such, the Company, during the three months ended June 30, 2010, received from the funds held in trust of \$77,189 (CDN \$80,909) with the balance of \$18,213 (CDN \$19,091) being paid to the vendor and expensed in 2010.

5. TRADE AND OTHER RECEIVABLES

	September 30, 2011	December 31, 2010
Trade and miscellaneous receivables	\$1,750,025	\$ 2,861,627
Less: Allowance for doubtful accounts	(54,497)	(153,390)
Unbilled revenue	131,111	283,770
	\$1,826,639	\$ 2,992,007

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

5. TRADE AND OTHER RECEIVABLES (cont'd)

At September 30, 2011, aggregate costs incurred and recognized profits, net of recognized losses, on open contracts accounted for using the percentage of completion method amounted to \$131,111 (December 31, 2010 - \$283,770). Progress billings and advances received from customers under open contracts amounted to \$158,644 (December 31, 2010 - \$111,797). Advances on contracts for which the related work had not started, and billings in excess of costs incurred and recognized profits, are presented as deferred revenue and amounted to \$95,483 at September 30, 2011 (December 31, 2010 - \$140,442).

6. INTANGIBLE ASSETS

The following table presents details of movement in the carrying value of the intangible assets by type:

Cost

	Acquired Software Technology	Computer Software	Customer Relationships	Patent Portfolio	Trademark and Brand	Total
Balance, December 31, 2010	\$ 872,707	\$ 1,085,884	\$ 37,003	\$ 38,844	\$ 13,607	\$ 2,048,045
Disposals	-	(118,356)	-	-	-	(118,356)
Foreign exchange	(44,626)	(46,472)	(1,892)	(1,986)	(696)	(95,672)
Balance, September 30, 2011	\$ 828,081	\$ 921,056	\$ 35,111	\$ 36,858	\$ 12,911	\$ 1,834,017

Accumulated Depreciation

	Acquired Software Technology	Computer Software	Customer Relationships	Patent Portfolio	Trademark and Brand	Total
Balance, December 31, 2010	(\$ 332,707)	(\$ 1,070,450)	(\$ 27,003)	(\$ 28,844)	(\$ 8,607)	(\$ 1,467,611)
Disposals	-	117,906	-	-	-	117,906
Amortization	(411,841)	(14,585)	(7,627)	(7,627)	(3,813)	(445,493)
Foreign exchange	44,564	46,615	1,891	1,985	695	95,750
Balance, September 30, 2011	(\$ 699,984)	(\$ 920,514)	(\$ 32,739)	(\$ 34,486)	(\$ 11,725)	(\$ 1,699,448)

Net Book Value

	Acquired Software Technology	Computer Software	Customer Relationships	Patent Portfolio	Trademark and Brand	Total
Balance, December 31, 2010	\$ 540,000	\$ 15,434	\$ 10,000	\$ 10,000	\$ 5,000	\$ 580,434
Balance, September 30, 2011	\$ 128,097	\$ 542	\$ 2,372	\$ 2,372	\$ 1,186	\$ 134,569

Total amortization for the three months ended September 30, 2011 and 2010 was \$143,863 and \$221,806 respectively. Total amortization for the nine months ended September 30, 2011 and 2010 was \$445,493 and \$671,241, respectively.

During the three months ended September 30, 2011 and 2010, there was no disposal of assets. During the nine months ended September 20, 2011, the Company disposed of assets with a net book value of \$450 as part of the

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

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6. INTANGIBLE ASSETS (cont'd)

restructuring and wind up of its operations in China during the prior quarter (See Note 15 - Restructuring). During the nine months ended September 30, 2010, there was no disposal of assets.

The carrying value of intangible assets is inherently uncertain. The Company performed an analysis of the intangible assets as at March 31, 2011, June 30, 2011 and September 30, 2011 to see if there were any indications of impairment and concluded that no indications were present. As such, no impairment test was performed.

7. EQUIPMENT

The following table presents details of movement in the carrying value of equipment by type:

Cost

	Computers and Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance, December 31, 2010	\$ 2,145,200	\$ 1,096,720	\$ 608,018	\$ 3,849,938
Additions	2,059	-	-	2,059
Disposals	(235,492)	(134,006)	-	(369,498)
Foreign exchange	(91,835)	(45,829)	(31,090)	(168,754)
Balance, September 30, 2011	\$ 1,819,932	\$ 916,885	\$ 576,928	\$ 3,313,745

Accumulated Depreciation

	Computers and Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance, December 31, 2010	(\$ 1,819,117)	(\$ 906,214)	(\$ 574,662)	(\$ 3,299,993)
Disposals	179,764	92,060	-	271,824
Depreciation	(70,789)	(35,886)	(33,973)	(140,648)
Foreign exchange	84,016	41,701	31,707	157,424
Balance, September 30, 2011	(\$ 1,626,126)	(\$ 808,339)	(\$ 576,928)	(\$ 3,011,393)

Net Book Value

	Computers and Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance, December 31, 2010	\$ 326,083	\$ 190,506	\$ 33,356	\$ 549,945
Balance, September 30, 2011	\$ 193,806	\$ 108,546	\$ -	\$ 302,352

Total amortization for the three months ended September 30, 2011 and 2010 was \$31,578 and \$64,910, respectively. Total amortization for the nine months ended September 30, 2011 and 2010 was \$140,648 and \$195,220, respectively.

During the three months ended September 30, 2011 and 2010, there was no disposal of assets. During the nine months ended September 30, 2011, the Company disposed of assets with a net book value of \$97,674 as part of the restructuring and wind up of its operations in China during the prior quarter (nine months ended September 30, 2010 – gain of \$2,150).

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

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8. GOVERNMENT ASSISTANCE

Under agreements with the Industry Technology Office (“ITO” and formerly Technology Partnerships Canada), the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of approximately \$3.6 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.

The Company, on August 10, 2010, entered into an agreement to terminate its Technology Partnerships Canada (“TPC”) funding agreement. This termination agreement required an amount of CDN \$350,000 to be paid by the Company as full settlement of all amounts owing under the TPC funding agreement, inclusive of current and future royalty payments and future obligations as well as the elimination of the disputed claim of CDN \$929,183 (See Note 11[d] – Commitments and Contingencies). The Company recorded the amount payable under this termination agreement in the three month period ended June 30, 2010. As of September 30, 2011, the Company has paid CDN \$75,000 with CDN\$ 275,000 still outstanding to be paid as follows (CDN \$75,000 due December 31, 2011 and CDN \$200,000 due December 31, 2012). The long term portion of the settlement was discounted using a rate of 8% (as defined in the settlement agreement). During the three months ended September 30, 2011, \$3,670 (CDN \$3,598) was recognized as interest expense (three months ended September 30, 2010 - \$4,502). During the nine months ended September 30, 2011 \$13,726 (CDN \$13,419) was recognized as interest expense (nine months ended September 30, 2010 - \$4,502).

9. FINANCE LEASE OBLIGATIONS

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

	September 30, 2011	December 31, 2010
Minimum lease payments	\$ -	\$ 7,931
Interest at 1.4% per annum	-	(113)
Lease principal obligation	-	7,818
Current portion	-	(7,818)
Long-term portion	\$ -	\$ -

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, 2010	163,259,070	\$108,288,585
No transactions during the period	-	-
Outstanding, September 30, 2011	163,259,070	\$108,288,585

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Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

10. SHARE CAPITAL (cont'd)

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, consultants and service providers equal to the lower of: (i) up to 10% of issued and outstanding common shares of the Company from time to time less one share; and, (ii) 30,000,000 shares. The plan provides for the granting of options at the closing price of the Company's stock on the day prior to the grant date. Options granted generally vest over three years with the first one-third vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each quarter thereafter. The

The Company determines the term of each option at the time it is granted, with options generally having a five-year term. As of September 30, 2011, the Company was entitled to grant 16,325,906 incentive stock options under the plan of which 9,677,350 have been granted.

A summary of the Company's share option activity for the nine months ended September 30, 2011 is as follows:

	Outstanding options	
	Number of common shares	Weighted average exercise price (in Canadian dollars)
Outstanding, December 31, 2010	7,435,473	\$ 0.19
Options granted	2,864,900	0.11
Options exercised	-	-
Options forfeited/expired	(623,023)	0.24
Outstanding, September 30, 2011	9,677,350	\$ 0.16

Share-based compensation is recorded evenly over the vesting term, which is usually thirty six (36) months.

The following table summarizes the share options outstanding as at September 30, 2011:

Options outstanding				Options exercisable	
Range of exercise price (in Canadian dollars)	# of common shares	Weighted average remaining contractual life	Weighted average exercise price (in Canadian dollars)	# of options exercisable	Weighted average exercise price (in Canadian dollars)
\$ 0.05 – \$ 0.15	8,523,500	3.57	\$ 0.09	4,486,615	\$ 0.08
\$ 0.16 – \$ 0.74	634,525	1.20	\$ 0.59	634,525	\$ 0.59
\$ 0.75 – \$ 0.90	254,500	1.35	\$ 0.78	254,500	\$ 0.78
\$ 0.91 – \$ 0.94	264,825	1.21	\$ 0.92	264,825	\$ 0.92
	9,677,350	3.29	\$ 0.16	5,640,465	\$ 0.21

The weighted average fair value of stock options granted during the three and nine months ended September 30, 2011 was CDN \$0.08 and CDN \$0.09 per share (three and nine months ended September 30, 2010 – CDN \$0.05 and CDN \$0.07 per share).

Share-based compensation cost of CDN \$2,112 for options granted in the three months ended September 30, 2011 will be amortized over the vesting period, of which CDN \$206 was recognized in the three months ended September 30, 2011. Share-based compensation cost of CDN \$217,740 (adjusted for the forfeiture rate) for options granted in the nine months ended September 30, 2011 will be amortized over the vesting period, of which CDN \$79,561 was recognized in the nine months ended September 30, 2011. The total share-based compensation calculated for the

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

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10. SHARE CAPITAL (cont'd)

three and nine months ended September 30, 2011 was \$60,962 and \$137,012 (three and nine months ended September 30, 2010 – \$44,514 and \$75,026).

Share-based compensation has been presented in the condensed consolidated statements of operations and deficit as “share-based compensation” expense. The fair value of each option is accounted for in the statement of operations and deficit, over the period of the options, and the related credit is included in other reserves.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Expected life (in years)	4.0	4.0	4.0	4.0
Risk-free interest rate	1.48%	2.23%	2.13%	2.70%
Volatility	133.27%	124.87%	134.89%	125.99%
Dividend yield	0.00%	0.00%	0.00%	0.00%

Income (loss) per share

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Weighted average number of shares outstanding – basic	163,259,070	163,259,070	163,259,070	163,259,070
Dilutive effects of exercisable options	4,936,830	-	4,928,904	-
Weighted average number of shares outstanding – fully diluted	168,195,900	163,259,070	168,187,974	163,259,070

The weighted average number of shares outstanding for purposes of calculating basic income (loss) per share for the three and nine months ended September 30, 2011 was 163,259,070 (three and nine months ended September 30, 2010 – 163,259,070).

For the fully diluted income per share calculation for the three and nine months ended September 30, 2011, 4,936,830 and 4,928,904 shares were added to the weighted average number of common shares outstanding during the periods for the dilutive effects of exercisable stock options which had a strike price that was lower than the average stock price for above mentioned periods. For the three and nine months ended September 30, 2010, no shares were added as the Company was in a net loss position for the periods resulting in an anti-dilutive quantification (note 3).

11. COMMITMENTS AND CONTINGENCIES

[a] The Company has lease commitments for office premises until 2015. The aggregate of minimum lease payments as at September 30, 2011 in each of the next five years are approximately as follows:

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11. COMMITMENTS AND CONTINGENCIES (cont'd)

Remainder of 2011	\$ 199,957
2012	150,497
2013	155,422
2014	159,676
2015	124,557
	\$ 790,109

- [b] During the three months ended September 30, 2011, the Company executed an agreement (effective October 14, 2011) to terminate its existing Vancouver, B.C. facility lease which would have terminated November 30, 2015. As part of the lease termination, the Company paid an amount of approximately CDN \$241,000 representing the rent subsidization to the new tenant of the exited facility, third party brokerage fees and lease termination fee to the landlord. The Company entered into a new facility lease commencing October 15, 2011 until October 14, 2015 which is reflected in the above commitment schedule. Had the Company not executed an agreement to terminate its existing lease, the aggregate of minimum lease payments as of September 30, 2011 in each of the next five years would have been approximately as follows:

Remainder of 2011	\$ 236,067
2012	340,756
2013	340,756
2014	340,756
2015	312,359
	\$ 1,570,694

- [c] The Company has a commitment to pay a royalty of \$15 per \$100 of licenses sold of certain software licenses. In the event the cumulative royalty is less than \$150,000, the Company was required to pay the difference between the cumulative amount paid and the \$150,000 on November 30, 2008. The Company had accrued the remaining balance of \$129,926 (CDN\$136,188) as at December 31, 2007 as management determined that future sales under this agreement were unlikely. No payment had been made as of September 30, 2011.

- [d] The Company previously received correspondence from the ITO indicating that certain amounts claimed by the Company under its contribution agreement with TPC have been disallowed and that an invoice will be issued to the Company for approximately CDN \$929,183 in addition to the already recorded CDN \$22,063 (see Note 8—Government Assistance). The Company disputed the validity of the claim by TPC of these amounts.

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

- [e] 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 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.

- [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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

11. COMMITMENTS AND CONTINGENCIES (cont'd)

cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. To date, there are no claims or suits outstanding.

12. EXPORT DEVELOPMENT CANADA

On July 31, 2009, the Company entered into an agreement with Export Development Canada ("EDC") whereby EDC agreed to provide ninety percent (90%) insurance coverage for the Company's invoiced sales for a premium of anywhere from CDN \$0.41 to CDN \$0.76 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, 2012). The maximum liability coverage at any one time is CDN \$175,000 for domestic sales and CDN \$1,600,000 for sales outside of Canada. During the three and nine months ended September 30, 2011, the Company recorded total premiums of \$851 (CDN \$835) and \$15,081 (CDN \$14,764) in sales and marketing (three and nine months ended September 30, 2010 – CDN \$3,871 and CDN \$21,281). As of September 30, 2011, there were no premiums outstanding compared to total of \$3,762 (CDN \$3,871) outstanding premiums as of September 30, 2010.

13. SEGMENTED INFORMATION

Operating segments

The Company has three operating segments, as described below, which are the Company's strategic business units. For each of the strategic business units, the Company's Chief Operating Decision Maker (CODM) reviews internal management reports on at least a quarterly basis. The following summary describes the operations of the Company's reportable segments:

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

Information regarding the operations of each operating segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports. Segment profit is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

A breakdown of revenues, cost of sales and operating expenses for each reportable segment for the three and nine months ended September 30, 2011 and September 30, 2010 is as follows:

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Notes to Condensed Consolidated Financial Statements

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13. SEGMENTED INFORMATION (cont'd)

Three months ended September 30, 2011	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 682,716	\$ 2,067,302	\$ 24,824	\$ 2,774,842
Cost of sales	81,035	1,132,792	14,147	1,227,974
Gross margin	601,681	934,510	10,677	1,546,868
Operating expenses	36,657	-	1,294,493	1,331,150
Operating profit (loss)	\$ 565,024	\$ 934,510	(\$ 1,283,816)	\$ 215,718

Three months ended September 30, 2010	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 777,471	\$ 2,179,327	\$ 287,401	\$ 3,244,199
Cost of sales	126,565	1,173,505	161,749	1,461,819
Gross margin	650,906	1,005,822	125,652	1,782,380
Operating expenses	478,510	-	1,572,389	2,050,899
Operating profit (loss)	\$ 172,396	\$ 1,005,822	(\$ 1,446,737)	(\$ 268,519)

Nine months ended September 30, 2011	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 2,315,702	\$ 5,348,199	\$ 79,336	\$ 7,743,237
Cost of sales	280,831	3,244,359	40,159	3,565,349
Gross margin	2,034,871	2,103,840	39,177	4,177,888
Operating expenses	272,635	-	4,183,683	4,456,318
Operating profit (loss)	\$ 1,762,236	\$ 2,103,840	(\$ 4,144,506)	(\$ 278,430)

Nine months ended September 30, 2010	Software Solutions	Device Development Solutions	Other	Total
Revenue	\$ 3,324,624	\$ 5,605,269	\$ 845,761	\$ 9,775,654
Cost of sales	369,916	3,497,809	482,817	4,350,542
Gross margin	2,954,708	2,107,460	362,944	5,425,112
Operating expenses	1,958,297	-	5,002,105	6,960,402
Operating profit (loss)	\$ 996,411	\$ 2,107,460	(\$ 4,639,161)	(\$ 1,535,290)

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

13. SEGMENTED INFORMATION (cont'd)

Geographic information

The Company's equipment is located as follows:

	September 30, 2011	December 31, 2010
Canada	\$ 297,087	\$ 385,619
Asia	5,265	164,326
Total	\$ 302,352	\$ 549,945

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

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
United States	\$1,462,629	\$2,114,582	\$4,638,099	\$6,675,614
Canada	744,459	25,870	1,473,333	161,431
Europe	284,404	159,553	744,318	766,239
Latin America	177,954	455,027	547,019	1,212,704
Asia	88,849	440,719	185,690	800,384
Other	16,547	48,448	154,778	159,282
	\$2,774,842	\$3,244,199	\$7,743,237	\$9,775,654

Significant customers

In each respective period, revenues from customers which amounted to 10% or more of the Company's revenues accounted for the following percentage of the Company's total revenues and accounts receivable, as indicated below:

	Three months ended September 30, 2011	Nine months ended September 30, 2011	% of Accounts Receivable at September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2010	% of Accounts Receivable at September 30, 2010
Customer 1	22%	26%	11%	25%	26%	19%
Customer 2	15%	16%	13%	13%	7%	8%
Customer 3	14%	5%	23%	-	-	-
Total	51%	47%	47%	38%	33%	27%

For the three and nine months ended September 30, 2011, revenues earned from Customers 1, 2 and 3 related to Device Development Solutions. For the three and nine months ended September 30, 2010, revenues earned from Customers 1, 2 and 3 related to Device Development Solutions.

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Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

14. OTHER OPERATING EXPENSES

Other operating expenses consist of the following:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Amortization (<i>notes 6 and 7</i>)	\$ 175,441	\$ 286,716	\$ 586,141	\$ 866,461
Share-based compensation (<i>note 10</i>)	60,962	44,514	137,012	75,026
Technology Partnerships Canada Funding Investment (<i>note 8</i>)	-	-	-	287,192
Restructuring (<i>note 15</i>)	-	-	273,310	485,478
Gain on disposal of equipment (<i>note 7</i>)	-	-	-	(2,150)
	\$ 236,403	\$ 331,230	\$ 996,463	\$ 1,712,007

15. RESTRUCTURING

On February 8, 2010 the Company announced a restructuring plan to further reduce its cost structure, and made changes in its management, designed to improve operational efficiency and effectiveness. In June 2011, the Company reduced the size of its operations in China.

The following table summarizes the expenses recorded by the Company as at September 30, 2011 for the restructuring and wind up of its China operations to three remaining employees who will likely transfer to its Canadian operations in future:

	Severance Costs	Loss on Disposal of Equipment and Software	Office Related Costs	Other Costs	Total
Balance at December 31, 2010	\$ 23,800	\$ -	\$ -	\$ -	\$ 23,800
Settlements	(23,800)	-	-	-	-
Balance at March 31, 2011	\$ -	\$ -	\$ -	\$ -	\$ -
Charges	87,990	98,124	24,372	62,824	273,310
Settlements	(87,990)	(98,124)	(16,666)	-	(202,780)
Balance at June 30, 2011	\$ -	\$ -	\$ 7,706	\$ 62,824	\$ 70,530
Settlements	-	-	(7,706)	(21,056)	(28,762)
Balance at September 30, 2011	\$ -	\$ -	\$ -	\$ 41,768	\$ 41,768

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

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

The Company considers the items included in the condensed consolidated statements 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 September 30, 2011, the shareholders' equity of the Company was \$12,142,794 (December 31, 2010 - \$12,612,143).

17. FINANCIAL INSTRUMENTS

[a] Financial assets and liabilities

The Company has classified cash and cash equivalents as held-for-trading financial assets, measured at fair value with short-term investments being classified as available for sale financial assets. Trade and other receivables are classified as loans and receivables, measured at amortized cost. Trade and other payables, finance lease obligations and both the current and the long term portion of the TPC payable are classified as other liabilities, measured at amortized cost.

The carrying values and fair values of financial assets and liabilities as at September 30, 2011 and December 31, 2010 are summarized as follows:

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading	\$7,296,190	\$7,296,190	\$11,152,439	\$11,152,439
Available for sale	\$4,214,987	\$4,214,987	\$ -	\$ -
Trade and other receivables	\$ 1,826,639	\$ 1,826,639	\$ 2,992,007	\$ 2,992,007
Other liabilities	(\$1,580,622)	(\$1,580,622)	(\$2,424,492)	(\$2,424,492)

[b] Fair Value Disclosure

At September 30, 2011, the Company's financial instruments which are measured at fair value on a recurring basis were its short term assets and liabilities. These financial instruments were classified as "Level 1" financial instruments as their carrying value approximates their fair value given the short term to maturity. The long term portion of the TPC payable is classified as a "Level 2" financial instrument as the carrying value is discounted (due to its long term to maturity) using observable interest rates.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

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17. FINANCIAL INSTRUMENTS (cont'd)

[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, short-term investments and trade and other receivables. 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 trade and other receivables, the Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

As at September 30, 2011 and December 31, 2010, the Company's exposure to credit risk for these financial instruments was as follows:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 7,296,190	\$ 11,152,439
Short term investments	4,214,987	-
Trade and other receivables	1,826,639	2,992,007
	\$13,337,816	\$14,144,446

Trade and other receivables were aged as follows as at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Current	\$ 1,413,273	\$ 2,507,325
31-60 days	203,305	399,352
Over 60 days	210,061	85,330
	\$ 1,826,639	\$ 2,992,007

Trade and other payables were aged as follows as at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Current	\$ 1,298,642	\$ 2,124,956
31-60 days	26,776	32,902
Over 60 days	3,551	7,093
	\$ 1,328,969	\$ 2,164,951

[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.

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Notes to Condensed Consolidated Financial Statements

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17. FINANCIAL INSTRUMENTS (cont'd)

[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 September 30, 2011 balances would have an approximate \$393,000 impact on net income. A 10% change in the Chinese yuan to Canadian dollar exchange rate on the September 30, 2011 balances would have an approximate \$4,200 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 September 30, 2011, 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 statement of financial position values with an offsetting adjustment of approximately \$1.21 million to translation of foreign operations reserve.

[iv] Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily interest earned on its cash and cash equivalents as well as its short-term investments. The Company has performed sensitivity analysis on interest rate risk at September 30, 2011 to determine how a change in interest rates would impact equity and net earnings. During the three months ended September 30, 2011, the Company earned \$27,408 of interest income on its cash and cash equivalents as well as its short-term investments. An increase or decrease of 100 basis points in the average interest rate earned during the period would have adjusted net earnings by approximately \$113,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

18. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Related parties include key management, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of directors and key management of the Company for the three and nine months ended September 30, 2011 and 2010 are as follows:

INTRINSYC SOFTWARE INTERNATIONAL, INC.

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18. RELATED PARTY TRANSACTIONS (cont'd)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Salaries and short-term benefits*	\$ 199,806	\$238,594	\$ 610,827	\$709,781
Post employment benefits	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Other long-term benefits	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Termination benefits	\$ Nil	\$ 50,342	\$ 20,788	\$ 308,497
Share-based compensation	\$ Nil	\$ Nil	\$143,982	\$ 109,465

(*) Included in salaries and short-term benefits are Director fees.

During the three months ended September 30, 2011, and 2010, there were no options awarded to directors and key management under the Company's stock option plan. During the nine months ended September 30, 2011, the directors and key management were awarded 1,500,000 share options under the Company's stock option plan (nine months ended September 30, 2010 – 2,100,000 options).

19. TRANSITION TO IFRS

As stated in Basis of Presentation Note 2, this is the first year that the Company's consolidated financial statements are prepared in accordance with IFRS.

The policies set out in the Significant Accounting Policies section have been applied in preparing the financial statements for the three and nine months ended September 30, 2011 and the comparative information presented in these financial statements for the three and nine months ended September 30, 2010.

The Company has followed the recommendations in IFRS-1 *First-Time Adoption of IFRS*, in preparing its transitional statements. IFRS-1 provides specific one-time choices and mandates specific one-time exceptions with respect to first-time adoption of IFRS. The significant choices applicable to the Company relate to the following:

[i] Business Combinations: IFRS 1 provides that IFRS 3 may be applied prospectively or retrospectively with respect to business combinations completed prior to January 1, 2010. The Company has elected to apply IFRS 3 prospectively. Consequently, the Company will retain the accounting adopted under previous GAAP for its July 9, 2008 acquisition of certain assets of Destinator.

[ii] Cumulative Translation Adjustments: IFRS 1 permits cumulative translation gains and losses (related to unrealized translation gains and losses from converting foreign subsidiaries from the functional currency to the Company's reporting currency) to be reset to zero at the transition date. The Company has elected to reset cumulative transition gains to zero at January 1, 2010.

[iii] 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 valuation under the prior GAAP. The Company has decided to continue to apply the cost model for equipment and has not restated equipment to fair value under IFRS. The Company has elected to use the historical cost carrying values as determined under Canadian GAAP for transitional purposes.

[iv] Share-based Compensation: IFRS 1 allows the Company to choose not to apply IFRS 2 *Share-based Payment* to equity instruments that vested prior to the date of transition to IFRS. The Company has therefore elected to apply IFRS 2 only to outstanding stock options that were unvested at January 1, 2010.

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19. TRANSITION TO IFRS (cont'd)

In preparing its opening IFRS statements of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). An explanation of how the transition from Canadian GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables and the additional notes that accompany the tables.

[a] Reconciliation of Assets and Liabilities

There was no impact on the Company’s previously reported assets and liabilities upon transition to IFRS.

[b] Reconciliation of Shareholders’ Equity

	Note	January 1, 2010	September 30, 2010	December 31, 2010
Share capital under Canadian GAAP		\$108,288,585	\$108,288,585	\$108,288,585
Adjustments		-	-	-
Share capital under IFRS		\$108,288,585	\$108,288,585	\$108,288,585
Other capital reserves under Canadian GAAP		\$9,260,170	\$9,441,960	\$9,499,731
Adjustments	a, c	206,230	99,466	66,519
Other capital reserves under IFRS		\$9,466,400	\$9,541,426	\$9,566,250
Translation of Foreign operations reserves under Canadian GAAP		\$2,068,103	\$2,398,558	\$2,863,087
Adjustments	a	(2,068,103)	(2,068,103)	(2,068,103)
Translation of Foreign operations reserves under IFRS		\$-	\$330,455	\$794,984
Deficit under Canadian GAAP		(\$103,571,739)	(\$105,205,202)	(\$108,039,260)
Adjustments	a,b	1,861,873	1,968,637	2,001,584
Deficit under IFRS		(\$101,709,866)	(\$103,236,565)	(\$106,037,676)
Total Shareholders' equity under Canadian GAAP		\$16,045,119	\$14,923,901	\$12,612,143
Total Shareholders' equity under IFRS		\$16,045,119	\$14,923,901	\$12,612,143

INTRINSYC SOFTWARE INTERNATIONAL, INC.

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19. TRANSITION TO IFRS (cont'd)

[c] Reconciliation of Net Loss and Comprehensive Loss

	Note	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Year Ended December 31, 2010
Net loss under Canadian GAAP		(\$397,940)	(\$1,633,463)	(\$4,467,521)
Adjustments	b	\$20,484	\$106,764	\$139,711
Net loss under IFRS		<u>(\$377,456)</u>	<u>(\$1,526,699)</u>	<u>(\$4,327,810)</u>
Comprehensive income (loss) under Canadian GAAP		\$108,962	(\$1,303,008)	(\$3,672,537)
Adjustments	b	\$20,484	\$106,764	\$139,711
Comprehensive income (loss) under IFRS		<u>\$129,446</u>	<u>(\$1,196,244)</u>	<u>(\$3,532,826)</u>

[d] Reconciliation of Cash Flows

There was no impact on the Company's previously reported cash flows upon transition to IFRS.

Notes to the Restatements

[a] Cumulative Translation Adjustment

The Company uses the Canadian dollar as its functional currency and the U.S. dollar as its reporting currency. Pursuant to IFRS 1, *Cumulative Translation Adjustments*, the Company has reset cumulative translation gains totaling \$2,068,103 to zero at January 1, 2010.

[b] Share based compensation

Under IFRS graded vesting awards are accounted for as though each installment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis. Straight line basis is permissible under Canadian GAAP. Under IFRS, the estimates of the number of equity-settled awards that vest are adjusted to the actual number that vests, unless forfeitures are due to market-based conditions. There is no choice to accrue compensation cost as if all instruments granted were expected to vest and recognize the effect of the forfeitures as they occur as elected by the Company under Canadian GAAP. The impact of transition to IFRS with respect to options granted after November 7, 2002 that vest after the date of transition, is an increase in deficit and contributed surplus at January 1, 2010 of \$206,230, an increase in deficit and contributed surplus at September 30, 2010 of \$99,466, and a decrease in share based compensation of \$20,484 and \$106,764 for the three and nine months ended September 30, 2010, respectively.

[c] Presentation and classification

Warrants and Underwriters' Options, Contributed Surplus, and Accumulated Other Comprehensive Income previously presented separately under Shareholder's Equity have now been grouped under "Other Capital Reserves" under IFRS. Accumulated Other Comprehensive Income previously presented separately under Shareholders' Equity has now been classified as "Translation of Foreign Operations Reserve."

The Company's statement of operations is presented by function. Accordingly, as disclosed in Note 14, certain expenses have been reclassified as "Other expenses" under IFRS. These changes are reclassifications only and there is no impact on loss or comprehensive loss as a result of these changes.

INTRINSYC SOFTWARE INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited and expressed in U.S. dollars)

19. TRANSITION TO IFRS (cont'd)

[d] Equipment

IFRS sets out more detailed criteria with respect to the use of the component approach as compared to Canadian GAAP. Under IFRS, a separate component may be either a physical component, or a non-physical component that represents a major inspection or overhaul. When an item of equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately over its useful life. The Company has reviewed its capitalization policies under Canadian GAAP and determined that its approach to componentizing the assets under Canadian GAAP did not result in a significant impact upon transition to IFRS.

[e] Impairment

Under IFRS an impairment loss is determined as the excess of the carrying amount of an asset or group of assets above the recoverable amount (the higher of fair value less costs to sell and value in use) with impairment loss being reversed in subsequent periods to reflect changes in the factors that gave rise to the impairment. The Company has reviewed its capitalization and impairment review policies under IFRS and determined that there was no significant impact upon transition to IFRS.

20. COMPARATIVE FIGURES

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

INTRINSYC SOFTWARE INTERNATIONAL, INC.

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

For the Three and Nine Months ended September 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been prepared by management as of November 10, 2011 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes of Intrinsic Software International, Inc. (the "Company" or "Intrinsic") as at and for the three and nine months ended September 30, 2011 (prepared in accordance with International Financial Reporting Standards or "IFRS") and with the audited consolidated financial statements and related notes thereto of the Company for the year ended December 31, 2010, which were prepared in accordance with Canadian generally accepted accounting principles. Comparative figures under IFRS as at the year ended December 31, 2010 are also provided. All amounts are presented in United States (U.S.) dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

DISCLAIMER FOR FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions. The words "may", "would", "could", "will", "likely", "expect", "anticipate", "intend", "plan", "forecast", "project", "estimate" and "believe" or other similar words and phrases may identify forward-looking statements or information. Persons reading Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: the need to develop, integrate and deploy software solutions to meet its customers' requirements; the possibility of development or deployment difficulties or delays; the dependence on its customers' satisfaction; the timing of entering into significant contracts; its customers' continued commitment to the deployment of the Company's solutions; the risks involved in developing integrated software solutions and integrating them with third-party products and services; the performance of the global economy and growth in software industry sales; market acceptance of the Company's products and services; customer and industry analyst perception of the Company and its technology vision and future prospects; the success of certain business combinations engaged in by the Company or by its competitors; possible disruptive effects of organizational or personnel changes; technological change, new products and standards; risks related to acquisitions and international expansion; reliance on large customers; concentration of sales; international operations and sales; management of growth and expansion; dependence upon key personnel and hiring; reliance on a limited number of suppliers; risks related to the Company's competition; the Company's not adequately protecting its intellectual property; risks related to product defects and product liability; currency exchange rate risk; and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2010, and those referred to under the heading "Risk Factors". In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Management's Discussion and Analysis are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims

any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

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

The Company was incorporated under the laws of Alberta on August 31, 1992 under the name I.T.C. Microcomponents Inc. and continued under the laws of British Columbia on July 19, 1995. The Company changed its name to Intrinsic Software, Inc. on June 16, 1997. Articles of Continuance were filed under the Canada Business Corporations Act on May 1, 2003 to continue the Company federally and change the name of the Company from Intrinsic Software, Inc. to Intrinsic Software International, Inc. As of October 15, 2011, the Company’s principal business office is Suite 380, 885 Dunsmuir Street, Vancouver, British Columbia, V6C 1N5 and its registered office is Suite 800, 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1. The Company is listed on the Toronto Stock Exchange (“TSX”) under the trading symbol ICS.

CORPORATE SUMMARY

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

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

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

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

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

In July 2008, the Company acquired certain assets and operations inclusive of wholly owned China and Israel subsidiaries of Destinator Technologies Inc. (“Destinator”), a multinational developer of wireless software for global positioning system (“GPS”) devices and navigation software for wireless handsets. This transaction expanded the Company’s mobile software product portfolio with the addition of a navigation software application. Subsequently, the Beijing development center (which currently has only a small team) was used for cost effective delivery of engineering services, and support of regional customers complementing the Company’s Device Development Solutions.

SIGNIFICANT EVENTS FOR THIRD QUARTER 2011

Financial Events

- Revenue increase of 15% from the three months ended June 30, 2011 and decline of 15% from the three months ended September 30, 2010. The increase in revenues over the prior quarter was primarily attributable to Device Development Solutions.
- Operating expenses (excluding other operating expenses)¹ for the three months ended September 30, 2011 decreased by 6% from the three months ended June 30, 2011 and reduced by 36% from the three months ended September 30, 2010. The decrease in total operating expenses over the three months ended September 30, 2010 was due to continuing operating efficiencies, including reduction in development expenses for Destinator navigation software.
- The net income for the three months ended September 30, 2011 was \$627,106 compared to the net loss of \$481,525 for the three months ended June 30, 2011 and \$377,456 for the three months ended September 30, 2010.
- Cash and cash equivalents and short-term investments increased by approximately 4% from December 31, 2010.
- EBITDA² of \$452,121 for the three months ended September 30, 2011 compared to EBITDA of \$53,776 for the three months ended June 30, 2011 and EBITDA of \$62,711 for the three months ended September 30, 2010.
- Ten consecutive quarters of achieving positive EBITDA.

Strategic Highlight

- In October, announced a collaborative relationship with the Senoma Group that is intended to accelerate the company’s growth, though the pursuit of complementary strategic opportunities.

Product and Customer Highlights

- Signed four (4) new customer projects for product development services with industry leading OEMs.
- Enhanced its iQ machine-to-machine (“M2M”) Development Kit with an expanded software suite and services bundle to be sold as the iQ M2M Jump Start Kit.
- Added five (5) new iQ Kit customers, bringing the total to seventeen (17) customers.

¹ Operating expenses (excluding other operating expenses) 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 relates to Earnings before Other Operating Expenses. 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.

- Began the first shipment of the “Internet of Everything” wireless modules in limited production quantities.

SELECTED QUARTERLY INFORMATION (UNAUDITED)

The information in the table below has been derived from the Company’s unaudited condensed consolidated interim financial statements. The Company’s quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter. For prior quarters ending after January 1, 2010, the quarterly results are presented under IFRS. Quarterly results for quarters ended before January 1, 2010 have been prepared in accordance with Canadian GAAP.

Balance Sheets

<i>(in US\$ '000's)</i>	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Cash and cash equivalents	\$7,296	\$8,897	\$7,857	\$11,152	\$10,372	\$10,251	\$12,100	\$11,710
Short-term investments	\$4,215	\$3,027	\$4,033	\$-	\$-	\$-	\$-	\$-
Working capital	\$11,828	\$11,991	\$12,058	\$11,616	\$11,206	\$10,939	\$11,086	\$11,294
Total assets	\$14,264	\$14,590	\$15,515	\$15,508	\$17,971	\$17,575	\$19,417	\$20,198
Other long term financial liabilities	\$180	\$192	\$187	\$179	\$239	\$226	\$-	\$7
Shareholders' equity	\$12,143	\$12,497	\$12,863	\$12,612	\$14,924	\$14,750	\$15,712	\$16,045

Statements of Operations

<i>(in US\$ '000's, except earnings per share)</i>	Three months ended September 30, 2011	Three months ended June 30 2011	Three months ended March 31, 2011	Three months ended December 31, 2010	Three months ended September 30, 2010	Three months ended June 30, 2010	Three months ended March 31, 2010	Three months ended December 31, 2009
Revenue	\$2,775	\$2,415	\$2,553	\$2,936	\$3,244	\$3,024	\$3,507	\$3,854
Cost of goods sold	1,228	1,197	1,141	1,080	1,462	1,498	1,391	1,542
Gross margin	1,547	1,218	1,412	1,856	1,782	1,526	2,116	2,312
Total operating expenses	1,331	1,689	1,436	4,504	2,051	2,133	2,775	2,458
Other items	(411)	11	75	153	110	(240)	192	304
Income tax expense	-	-	1	-	(1)	(71)	2	(69)
Net income (loss)	\$627	(\$482)	(\$100)	(\$2,801)	(\$378)	(\$296)	(\$853)	(\$381)
Income (loss) per share	\$0.00	\$0.00	\$0.00	(\$0.02)	\$0.00	\$0.00	(\$0.01)	\$0.00

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 (UNAUDITED)

The following analysis of the results of operations for the three months ended September 30, 2011 includes comparisons to the three months ended June 30, 2011 and September 30, 2010.

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:

- 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 and J-Integra Enterprise Interoperability Software (“EIS”) product offerings;
- Device Development Solutions consisting of software development, modifications, consulting, implementation, training and integration services as well as revenue generated by Device Development Solutions software inclusive of RapidRIL; 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 September 30, 2011		Three months ended June 30, 2011		Three months ended September 30, 2010	
		%		%		%
Device Development Solutions	\$2,067,302	74%	\$1,664,688	69%	\$2,179,327	67%
Software Solutions	682,716	25%	723,487	30%	777,471	24%
Hardware	24,824	1%	27,053	1%	287,401	9%
Total revenue	\$2,774,842	100%	\$2,415,228	100%	\$3,244,199	100%

Revenue for the three months ended September 30, 2011 increased by 15% from the three months ended June 30, 2011 with the increase primarily attributable to increased revenues attributable to the Company's Device Development Solutions offset by decreased revenues from Software Solutions. Revenue decreased by 15% from the three months ended September 30, 2010 with the decrease attributable to lower revenues attributable to the Company's Software Solutions and Hardware businesses as well as a decrease in revenues from Device Development Solutions.

Device Development Solutions revenue for the three months ended September 30, 2011 was approximately \$2.1 million, compared to approximately \$1.7 million for the three months ended September 30, 2011 and approximately \$2.2 million in the same quarter of the prior year. The increase over the prior quarter is due primarily to an increase in billable projects from new and repeat customers.

Total revenues attributable to the Company's Software Solutions decreased by 6% during the three months ended September 30, 2011 compared to the three months ended June 30, 2011 and by 12% compared to the three months ended September 30, 2010. The decrease over the same period in the prior year was primarily due to lower sales of the Destinator navigation software as well as EIS products.

Hardware revenue was \$24,824 in the three months ended September 30, 2011 accounting for 1% of total revenue compared to \$27,053 or 1% of total revenue for the three months ended June 30, 2011 and \$287,401 or 9% of total revenue for the three months ended September 30, 2010. Hardware revenue was generated from the company's new M2M wireless offering, including the iQ Kit and Internet of Everything module.

To date, the Company has had a significant portion of its revenue derived from engineering services provided to its largest customers. While the Company continues to focus its efforts on expanding to new markets and developing revenue from new software and hardware solutions, it is expected that in the near-term, revenue generation will continue to be concentrated from a small number of customers. In each respective period, revenues from customers which amounted to 10% or more of the Company's revenues accounted for the following percentages of the Company's total revenues:

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Revenue	\$1,412,872	\$1,089,120	\$1,236,147
Percentage of total revenue	51%	45%	38%

The customers accounting for 51% of the total revenue for the three months ended September 30, 2011 were not the same customers that accounted for 45% for the three months ended June 30, 2011 and 38% for the three months ended September 30, 2010.

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

	Three months ended September 30, 2011		Three months ended June 30, 2011		Three months ended September 30, 2010	
		%		%		%
United States	\$1,462,629	53%	\$1,775,351	74%	\$2,114,582	65%
Canada	744,459	27%	38,411	2%	25,870	1%
Europe	284,404	10%	287,867	12%	159,553	5%
Latin America	177,954	6%	176,159	7%	455,027	14%
Asia	88,849	3%	52,363	2%	440,719	13%
Other	16,547	1%	85,077	3%	48,448	2%
	\$2,774,842	100%	\$2,415,228	100%	\$3,244,199	100%

For the three months ended September 30, 2011, the Company generated the majority of its revenue from the American, Canadian and European markets. This is compared to the three months ended June 30, 2011, in which the Company generated the majority of its revenue from the American and European markets and the three months ended September 30, 2010, which saw the Company generate the majority of its revenue from the American, Latin American and Asian markets.

Gross Margin

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

	Three months ended September 30, 2011		Three months ended June 30, 2011		Three months ended September 30, 2010	
		%		%		%
Revenues	\$2,774,842	100%	\$2,415,228	100%	\$3,244,199	100%
Cost of sales	1,227,974	44%	1,196,550	50%	1,461,819	45%
Gross margin	\$1,546,868	56%	\$1,218,678	50%	\$1,782,380	55%

The increase in gross margin percentage over the prior period is due to increased revenues attributable to the Company's Device Development Solutions and improved utilization of engineering resources.

Operating Expenses

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Sales and marketing	\$ 493,399	\$ 435,848	\$ 484,480
Research and development	36,657	124,400	478,510
Administration	564,691	604,654	756,679
Other operating expenses	236,403	524,082	331,230
Total operating expenses	\$1,331,150	\$1,688,984	\$2,050,899
As a percentage of total revenue	48%	70%	63%

Other Operating Expenses

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Amortization	\$175,441	\$201,772	\$ 286,716
Stock-based compensation	60,962	49,000	44,514
Restructuring	-	273,310	-
Total other operating expenses	\$236,403	\$524,082	\$ 331,230

The decrease in total operating expenses compared to the same period in the prior year was due primarily to decreased costs in research and development as well as administration as well as lower amortization offset by a slight increase in sales and marketing costs.

Operating Expenses (excluding Other Operating Expenses)

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Sales and marketing	\$ 493,399	\$ 435,848	\$ 484,480
Research and development	36,657	124,400	478,510
Administration	564,691	604,654	756,679
Total operating expenses	\$1,094,747	\$1,164,902	\$1,719,669
As a percentage of total revenue	39%	48%	53%

Total operating expenses decreased by 6% for the three months ended September 30, 2011 as compared to the three months ended June 30, 2011 and decreased by 36% from the \$1.7 million for the three months ended September 30, 2010. In particular, sales and marketing activities increased by approximately \$58,000, research and development costs decreased by approximately \$88,000 and administration expenses decreased by approximately \$40,000 over the prior quarter. Sales and marketing activities increased by approximately \$9,000, research and development costs decreased by approximately \$442,000 and administration expenses decreased by approximately \$192,000 over the third quarter of 2010.

Sales and Marketing

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Sales and marketing	\$493,399	\$435,848	\$484,480
As a percentage of total revenue	18%	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.

The increase in sales and marketing expense was primarily due to an increase in commissions and travel and entertainment.

Research and Development

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Research and development	\$36,657	\$124,400	\$478,510
As a percentage of total revenue	1%	5%	15%

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

The decrease in research and development costs during the three months ended September 30, 2011 over the same period in the prior year was attributable largely to a lower headcount which was further reduced in its Beijing office during the prior quarter. The Company had a total of 3 employees in its research and development department as at September 30, 2011 compared to 3 as at June 30, 2011 and 27 as at September 30, 2010.

Administration

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Administration	\$564,691	\$604,654	\$756,679
As a percentage of total revenue	20%	25%	23%

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

The decrease over the prior periods was primarily due to decreased travel and administrative costs.

EBITDA

Earnings before other operating expenses (“EBITDA”) was \$452,121 for the three months ended September 30, 2011 compared to \$53,776 for the three months ended June 30, 2011 and \$62,711 for the three months ended September 30, 2010.

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Operating Income (Loss) before other expenses (earnings) and income taxes	\$ 215,718	(\$470,306)	(\$289,003)
Less: Other operating expenses	236,403	524,082	351,714
EBITDA	\$ 452,121	\$ 53,776	\$ 62,711

The increase in EBITDA was primarily due to increased revenues and continuing operational efficiencies.

Other Items

	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Foreign exchange gain (loss)	\$ 385,332	(\$ 38,274)	(\$129,586)
Finance income	26,056	27,055	19,462
Other items	\$ 411,388	(\$ 11,219)	(\$110,124)

Net other income for the three months ended September 30, 2011 was attributable to a foreign exchange gain of \$385,332 and interest income of \$26,056. Net other loss for the three months ended June 30, 2011 was attributable to a foreign exchange loss of \$38,274 offset by interest income of \$27,055. Net other loss for the three months ended September 30, 2010 was attributable to a foreign exchange loss of \$129,586 offset by interest income of \$19,462.

FINANCIAL RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UNAUDITED)

The following analysis of the results of operations for the nine months ended September 30, 2011 includes comparisons to the nine-month period ended September 30, 2010.

Revenue

<i>Revenue by Source</i>	Nine months ended September 30, 2011		Nine months ended September 30, 2010		Change
		%		%	
Device Development Solutions	\$5,348,199	69%	\$5,605,269	57%	(5%)
Software Solutions	2,315,702	30%	3,324,624	34%	(30%)
Hardware	79,336	1%	845,761	9%	(91%)
Total revenue	\$7,743,237	100%	\$9,775,654	100%	(21%)

The decrease in revenue is attributable to a decline in Device Development Solutions revenue as well as a decrease in the Software Solutions inclusive of the EIS and Destinator product offerings and Hardware sales. Revenue attributable to Software Solutions includes license, maintenance, support and service revenues generated by the Company's Software Solutions initiatives.

In each respective period, revenues from customers which amounted to 10% or more of the Company's revenues accounted for the following percentages of the Company's total revenues:

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change
Revenue	\$3,608,507	\$3,245,389	11%
Percentage of total revenue	47%	33%	

The customers accounting for 47% of the total revenue for the nine months ended September 30, 2011 were the same customers that accounted for 33% of the total revenue for the nine months ended September 30, 2010.

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

	Nine months ended September 30, 2011		Nine months ended September 30, 2010		Change
		%		%	
United States	\$4,638,099	60%	\$6,675,614	68%	(31%)
Canada	1,473,333	19%	161,431	2%	813%
Europe	744,318	10%	766,239	8%	(3%)
Latin America	547,019	7%	1,212,704	12%	(55%)
Asia	185,690	2%	800,384	8%	(77%)
Other	154,778	2%	159,282	2%	(3%)
Total revenue	\$7,743,237	100%	\$9,775,654	100%	(21%)

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

Gross Margin

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

	Nine months ended September 30, 2011	%	Nine months ended September 30, 2010	%	Change
Revenues	\$7,743,237	100%	\$9,775,654	100%	(21%)
Cost of sales	3,565,349	46%	4,350,542	45%	(18%)
Gross margin	\$4,177,888	54%	\$5,425,112	55%	(23%)

The gross margin percentage for the nine months ended September 30, 2011 is comparable to the gross margin percentage over the same period in the prior year.

Operating Expenses

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change
Sales and marketing	\$1,521,215	\$1,498,812	2%
Research and development	272,635	1,958,297	(86%)
Administration	1,666,005	1,791,286	(7%)
Other operating expenses	996,463	1,712,007	(42%)
Total operating expenses	\$4,456,318	\$6,960,402	(36%)
As a percentage of total revenue	58%	71%	

Other Operating Expenses

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change
Amortization	\$586,141	\$ 866,461	(32%)
Stock-based compensation	137,012	75,026	83%
Technology Partnerships Canada Funding Investment	-	287,192	(100%)
Restructuring	273,310	485,478	(44%)
Gain on disposal of equipment	-	(2,150)	100%
Total other operating expenses	\$996,463	\$1,712,007	(42%)

The decrease in total operating expenses was due primarily to decreased costs in research and development and administration (due to the closure of the Beijing office in the previous quarter) as well as lower amortization and restructuring expenses. This decrease was offset by a small increase in sales and marketing.

Operating Expenses (excluding Other Operating Expenses)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change
Sales and marketing	\$1,521,215	\$1,498,812	2%
Research and development	272,635	1,958,297	(86%)
Administration	1,666,005	1,791,286	(7%)
Total operating expenses	\$3,459,855	\$5,248,395	(34%)
As a percentage of total revenue	45%	54%	

Sales and marketing activities increased by approximately \$22,000 which was offset by a decrease in research and development costs of approximately \$1.7 million and a decrease in administration costs of approximately \$125,000. The decrease for the nine months ended September 30, 2011 over same period in the prior year is mainly the result

of reduced operations in Beijing where the headcount has been reduced from 27 employees as at September 30, 2010 to 3 employees as at September 30, 2011 as well as continued operational efficiencies.

Sales and Marketing

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change
Sales and marketing	\$1,521,215	\$1,498,812	2%
As a percentage of total revenue	20%	15%	

Total sales and marketing expenses for nine months ended September 30, 2011 increased slightly when compared to the nine months ended September 30, 2010 due to an increase in travel and entertainment costs.

Research and Development

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change
Research and development	\$272,635	\$1,958,297	(86%)
As a percentage of total revenue	4%	20%	

Research and development costs for the nine months ended September 30, 2011 decreased by approximately \$1.7 million or 86% over the nine months ended September 30, 2010 due mainly to the significant reduction of employees working on research and development in the Beijing center.

Administration

	Nine months ended September 30, 2011	Nine months ended September 30, 2010	Change
Administration	\$1,666,005	\$1,791,286	(7%)
As a percentage of total revenue	22%	18%	

General and administration expense for the nine months ended September 30, 2011 decreased by approximately \$125,000 or 7% when compared to the nine months ended September 30, 2010. This decrease is attributable to decreased travel, professional fees and general operating expenses.

EBITDA

Earnings before other operating expenses (“EBITDA”) was approximately \$719,000 for the nine months ended September 30, 2011 compared to approximately \$177,000 for the nine months ended September 30, 2010. The improved EBITDA was due primarily to continued operational efficiencies during the nine months ended September 30, 2011.

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Operating Loss before other expenses (earnings) and income taxes	(\$ 278,430)	(\$ 1,535,290)
Less: Other operating expenses	996,463	1,712,007
EBITDA	\$ 718,003	\$ 176,717

Other Items

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Foreign exchange gain (loss)	\$ 251,816	(\$ 98,083)
Finance income	72,744	36,258
Other items	\$ 324,560	(\$ 61,825)

Net other income for the nine months ended September 30, 2011 was attributable to a foreign exchange gain of \$251,816 and interest income of \$72,744. Net other loss for the nine months ended September 30, 2010 was attributable to a foreign exchange loss of \$98,083 offset by interest income of \$36,258. The increase in interest income for the nine months ended September 30, 2011 over the same period in the prior year is attributable to an increase in the average treasury investment balance during the period in conjunction with an increase in interest rates for such investments (due to longer maturity terms).

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings. As at September 30, 2011, the Company had cash and cash equivalents totalling approximately \$7.3 million and short-term investments totalling \$4.2 million with working capital³ of approximately \$11.8 million, as compared to cash and cash equivalents of approximately \$11.2 million and working capital of approximately \$11.6 million as at December 31, 2010 and cash and cash equivalents of approximately \$10.4 million and working capital of approximately \$11.2 million as at September 30, 2010.

Three Months ended September 30, 2011 (Unaudited)

Cash provided by (used in):	Three months ended September 30, 2011	Three months ended June 30, 2011	Three months ended September 30, 2010
Operating activities	\$ 576,253	(\$ 27,071)	(\$ 136,727)
Investing activities	(1,528,162)	1,021,750	(69,783)
Financing activities	-	-	(24,109)
Effect of exchange rate changes on cash and cash equivalents	(649,256)	45,154	352,281
Increase (decrease) in cash and cash equivalents	(\$ 1,601,165)	\$ 1,039,833	\$ 121,662

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

Investing activities during the three months ended September 30, 2011 primarily pertained to the Company purchasing short-term investments that had a maturity greater than three months but less than one year. Cash provided by investing activities during the three months ended June 30, 2011 pertained the Company redeeming short-term investments that had matured. There investing activities during the three months ended September 30, 2010 pertained to the purchase of equipment.

There were no financing activities during the three months ended September 30, 2011 nor June 30, 2011. During the three months ended September 30, 2010, cash used by financing activities was attributable primarily to repayments for capital lease obligations.

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.

Nine Months ended September 30, 2011 (Unaudited)

Cash provided by (used in):	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Operating activities	\$ 1,000,268	(\$1,575,895)
Investing activities	(4,473,919)	(69,783)
Financing activities	(7,890)	58,867
Effect of exchange rate changes on cash and cash equivalents	(374,708)	248,759
Increase (decrease) in cash and cash equivalents	(\$ 3,856,249)	(\$1,338,052)

As a result of continued prudent cost management, the Company was able to generate cash from operations of approximately \$1.0 million during the nine months ended September 30, 2011. This is compared to cash used in operations of approximately \$1.6 million during the nine months ended September 30, 2010.

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

Cash used in investing activities during the nine months ended September 30, 2011 pertained to the Company purchasing short-term investments that had a maturity greater than three months but less than one year. Investing activities during the nine months ended September 30, 2010 pertained to the purchase of equipment.

During the nine months ended September 30, 2011, financing activities pertained to repayments for capital lease obligations. During the nine months ended September 30, 2010, cash provided by investing activities was the release of the restricted cash offset by repayments for capital lease obligations.

STAFFING LEVELS

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

	As at September 30, 2011	As at June 30, 2011	As at September 30, 2010
Service engineers	53	46	44
Sales and marketing	7	7	7
Research and development	3	3	27
Administration	6	6	9
Total	69	62	87

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 September 30, 2011 are as follows for the years ending December 31:

Contractual Obligations	Total	F2011	F2012	F2013	F2014	F2015
Operating lease obligations	\$790,109	\$199,957	\$150,497	\$155,422	\$159,676	\$124,557

During the three months ended September 30, 2011, the Company executed an agreement (effective October 14, 2011) to terminate its existing Vancouver, B.C. facility lease which would have terminated November 30, 2015. As part of the lease termination, the Company paid an amount of approximately CDN \$241,000 representing the rent subsidization to the new tenant of the exited facility, third party brokerage fees and lease termination fee to the

landlord. The Company entered into a new facility lease commencing October 15, 2011 until October 14, 2015 which is reflected in the above commitment schedule. Had the Company not executed an agreement to terminate its existing lease, the aggregate of minimum lease payments as of September 30, 2011 in each of the next five years would have been approximately as follows:

Contractual Obligations	Total	F2011	F2012	F2013	F2014	F2015
Operating lease obligations	\$1,570,694	\$236,067	\$340,756	\$340,756	\$340,756	\$312,359

GOVERNMENT ASSISTANCE

Industry Technology Office (formerly Technology Partnerships Canada)

Under agreements with the Industry Technology Office (“ITO” and formerly Technology Partnerships Canada), the Company was eligible to receive conditionally repayable research and development funding to support the development of embedded devices and wireless internet-enabled network connectivity. This agreement expired March 31, 2004. The Company received a total of approximately \$3.6 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.

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

Export Development Canada

On July 31, 2009, the Company entered into an agreement with Export Development Canada (“EDC”) whereby EDC agreed to provide ninety percent (90%) insurance coverage for the Company’s invoiced sales for a premium of anywhere from CDN \$0.41 to CDN \$0.76 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, 2012). The maximum liability coverage at any one time is CDN \$175,000 for domestic sales and CDN \$1,600,000 for sales outside of Canada. During the three and nine months ended September 30, 2011, the Company recorded total premiums of \$851 (CDN \$835) and \$15,081 (CDN \$14,764) in sales and marketing (three and nine months ended September 30, 2010 – CDN \$3,871 and CDN \$21,281). As of September 30, 2011, there were no premiums outstanding compared to total of \$3,762 (CDN \$3,871) outstanding premiums as of September 30, 2010.

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 \$134,569 as at September 30, 2011. Through the Destinator acquisition in July 2008, the Company identified \$13,698,000 in intangible assets. The Company performed an assessment of the fair value of its intangible assets as at December 31, 2008 resulting in an impairment charge of approximately \$6.5 million recorded at that time. The Company completed an impairment analysis as at December 31, 2009 with no further impairment. The Company completed an impairment analysis as at December 31, 2010 resulting in an impairment charge of approximately \$2.5 million recorded at that time. The remaining carrying value is the fair value of the estimated future cash flow stream associated with the assets which is based on license agreements that have been entered into.

OFF-BALANCE SHEET ARRANGEMENTS

None.

TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Related parties include key management, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of directors and key management of the Company for the three and nine months ended September 30, 2011 and 2010 is as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Salaries and short-term benefits*	\$ 199,806	\$238,594	\$ 610,827	\$709,781
Post employment benefits	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Other long-term benefits	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Termination benefits	\$ Nil	\$ 50,342	\$ 20,788	\$ 308,497
Share-based compensation	\$ Nil	\$ Nil	\$143,982	\$109,465

(*) Included in salaries and short-term benefits are Director fees.

During the three months ended September 30, 2011, and 2010, there were no options awarded to directors and key management under the Company's stock option plan. During the nine months ended September 30, 2011, the directors and key management were awarded 1,500,000 share options under the Company's stock option plan (nine months ended September 30, 2010 – 2,100,000 options).

PROPOSED TRANSACTIONS

None.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These condensed consolidated financial statements of the Company, approved by the Board of Directors on November 9, 2011, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB").

The Company previously prepared its financial statements in accordance with generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in Note 19, these condensed consolidated financial statements have been prepared using the historical cost basis and the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 19 discloses the impact of transition to IFRS on the Company's reported financial positions, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed consolidated financial statements are based on IFRS issued and outstanding as of September 30, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

Revenue Recognition

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

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

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

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

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

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

The Company has entered into contracts with some of its customers to bundle and resell 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 related to trade and other receivables that are considered to be uncollectible. The allowance is based on the Company's knowledge of the financial condition of its customers, the aging of the receivables, the current business environment and historical experience. A change to these factors could impact the estimated allowance and the provision for bad debts.

Intangible Assets

Intangible assets acquired either individually or with a group of other assets are initially recognized or 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. Amortization is subsequently provided on a straight line basis over the following periods:

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

Due to the change in estimates in the future economic life of the intangible assets, the amortization periods (except for computer software) were reduced to one year to reflect the estimated future cash flows derived from the use of the intangible assets. This change was introduced at the year ended December 31, 2010 and effective beginning January 1, 2011.

Changes in Accounting Policies

There were no changes in accounting policies during the three and nine months ended September 30, 2011.

New Standards and Interpretations Not Yet Adopted

Certain new standards, amendments to standards, and interpretations are not yet effective for the current reporting period, and therefore have not been applied in preparing the condensed consolidated financial statements:

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The standard introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 9.

Classification of rights issues (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice requires such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after February 1, 2010, and earlier application is permitted. Management has determined that there is no financial impact as this standard is not applicable to the Company.

Prepayments of a minimum funding requirement (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when

IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning January 1, 2011, and earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. Management has determined that there is no financial impact as this standard is not applicable to the Company.

IFRIC 19, Extinguishing financial liabilities with equity instruments. This clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010, and earlier application is permitted. Management has determined that there is no financial impact as this standard is not applicable to the Company.

Accounting Standards

In fiscal 2011 the Company completed its International Financial Reporting Standards ("IFRS") conversion plan. To facilitate this process and ensure that the full impact of the conversion was understood and managed reasonably, in 2010 the Company retained consultants to assist with the IFRS conversion project. Through assistance with respect to training and preparation of reconciliations of historical Canadian GAAP financial statements to IFRS, the Company believes that its accounting department has obtained sufficient understanding of IFRS for implementation purposes.

The Company's IFRS implementation project consisted of three primary phases which were completed in 2011 by a combination of in-house resources and external consultants:

- **Initial diagnostic phase** – Involved preparing a preliminary impact assessment to identify key areas that were impacted by the transition to IFRS. Each potential impact identified during this phase was ranked as having a high, moderate or low impact on the Company's reporting and the overall difficulty of the conversion effort. This phase was completed in fiscal 2010.
- **Impact analysis, evaluation and solution development phase** – Involved 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 statement of financial position, and the development of IFRS financial statements. Management reviewed the transitional policy choices available under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and the impact of IFRS adoption was quantified in order to prepare an IFRS opening statement of financial position as at January 1, 2010. This phase was completed in the fiscal 2011.
- **Implementation and review phase** – Involved training key finance and other personnel and implementation of the required changes to information systems and business policies and procedures. The phase enabled the Company to collect the financial information necessary to prepare its first IFRS financial statements as at and for the three months ended March 31, 2011 and continue to report under IFRS on a go-forward basis during the remainder of fiscal 2011. This phase was completed in fiscal 2011.

IFRS Transition Plan

The Company 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 results 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 First Time Adoption of International Financial Reporting Standards.	Complete.
Final determination of changes to accounting policies and choices to be made with respect to first time adoption alternatives.	Complete.

Resolution of the accounting policy change implications on information technology, business processes and contractual arrangements.	Complete.
Quantification of the financial statement impact of changes in accounting policies.	Complete.
Management and employee education and training.	Complete.

As part of management's analysis of potential changes to significant accounting policies, the Company assessed what changes would be required to its accounting systems and business processes. The Company believes that the changes required were minimal and current systems and processes accommodate the necessary changes. The Company did not identify any contractual arrangements that were affected by changes to significant accounting policies.

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

Impact on Financial Statement Presentation, Classification, and Disclosure

i) Financial Statement Presentation

The components of a complete set of IFRS financial statements are: consolidated statements of financial position (balance sheet), consolidated statements of operations and deficit, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity, consolidated statements of cash flows, and notes including accounting policies. Under IFRS, 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 reformatted its financial statements in compliance with IFRS and elected to retain its existing presentation, (i.e., descending order of liquidity).*

ii) Deferred taxes

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

Impact on the Company: *The Company is currently in a net deferred tax asset position with a full valuation allowance provision. As a result, there was no material impact 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: *There were not significant provisions requiring separate disclosure pursuant to IAS 37.*

IFRS-1 Transitional Policy Choices and Exceptions for Retrospective Application

IFRS-1 contains the following policy choices with respect to first-time adoption that were 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 elected to not apply IFRS 3 prospectively. Consequently, the Company will retain the accounting adopted under previous GAAP for its July 9, 2008 acquisition of Destinator Technologies.

Impact on the Company: *The Company previously elected 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. The individual asset and liability balances for historical acquisitions originally recognized under Canadian GAAP were 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 elected to use the historical cost carrying values for equipment as determined under Canadian GAAP for transitional purposes.*

iii) Cumulative translation adjustment

Included under Accumulated Other Comprehensive Income is a cumulative translation adjustment (CTA) balance relating to the unrealized translation gains and losses from converting the Company's foreign subsidiaries from functional currency to 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 elected to reset cumulative translation adjustments of \$2,068,103 to zero at January 1, 2010.*

iv) Share-based Compensation:

IFRS 1 allows the Company to choose not to apply IFRS 2 Share-based Payment to equity instruments that vested prior to the date of transition to IFRS.

Impact on the Company: *The Company has therefore elected to apply IFRS 2 only to outstanding stock options that were unvested at January 1, 2010.*

v) 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 believes that its historical classification of financial instruments under Canadian GAAP is consistent with the principles set out in IAS 39.*

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 identified*

no major inspection or overhaul cost with respect to its equipment. Accordingly, there was no material impact upon transition.

ii) Intangible assets – impairment

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. **Canadian GAAP:** A two-step approach is used to measure impairment. In step 1, a recoverability test is performed by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, step 2 is triggered, and the entity must record an impairment loss calculated as the excess of the asset's carrying amount over its fair value.

Impact on the Company: *The Company has concluded that there is no material difference between the carrying values of its intangible assets under IFRS and Canadian GAAP.*

iii) Share based compensation

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

Impact on the Company: *The Company previously recognized share based compensation expense on a straight line basis under Canadian GAAP and therefore recorded transitional adjustments for options unvested at January 1, 2010 under IFRS. The impact of this adjustment at the date of transition was a \$206,230 increase in both deficit and contributed surplus.*

iv) Revenue recognition

Multiple element arrangements:

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

Service arrangements:

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

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

vi) Functional currency

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

Impact on the Company: *The Company has concluded that the functional currency for the Company and its subsidiaries under both IFRS and Canadian GAAP 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: There was no material impact on transition to IFRS. The Company applied the methodology described in IAS 21 with respect to its 2010 comparative IFRS financial statements.

Impact on Previously Reported Financial Results

i) January 1, 2010 – Transitional Statement of Financial Position

As a result of the aforementioned IFRS differences, the Company's deficit at January 1, 2010 decreased by \$1,861,873 under IFRS, as a result of the resetting of cumulative translation adjustments (decrease of \$2,068,103) and the recognition of additional stock-based compensation expense at the date of transition (increase of \$206,230).

ii) September 30, 2010 – Previous Interim Financial Statements

As a result of the aforementioned IFRS differences, the Company's deficit at September 30, 2010 decreased by \$1,948,153 under IFRS, as a result of the resetting of cumulative translation adjustments (decrease of \$2,068,103) and the recognition of cumulative share-based compensation expense differences at September 30, 2010 (increase of \$99,466). Net loss for the three and nine months ended September 30, 2010 decreased by \$20,484 and \$106,764, as a result of lower share-based compensation expense recognized under IFRS for the three and nine months ended September 30, 2010.

iii) Financial Statements – Remainder of Fiscal 2010

The Company also expects that previously reported stock-based compensation expense for the fiscal year ended December 31, 2010 will be restated under IFRS and the Company is currently in the process of determining the amount of these adjustments.

Impact on Systems and Processes

The Company concluded that the adoption of IFRS did not have a pervasive impact on its systems and processes. The Company implemented certain minor changes to the general ledger account descriptions as well as the calculation methodologies previously used for certain specific financial statement areas such as asset impairment and share based compensation. As the accounting policies were selected, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures were made.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company has classified cash and cash equivalents and short-term investments as held-for-trading financial assets, measured at fair value. Trade and other receivables are classified as loans and receivables, measured at amortized cost. Trade and other payables, finance lease obligations and the long term portion of the TPC payable 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. Short-term investments comprise highly liquid investments with original maturities of greater than three months but less than one year.

The carrying values and fair values of financial assets and liabilities as at September 30, 2011 and December 31, 2010 and are summarized as follows:

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held-for-trading	\$7,296,190	\$7,296,190	\$11,152,439	\$11,152,439
Available for sale	\$4,214,987	\$4,214,987	\$ -	\$ -
Trade and other receivables	\$ 1,826,639	\$ 1,826,639	\$ 2,992,007	\$ 2,992,007
Other liabilities	(\$1,580,622)	(\$1,580,622)	(\$2,424,492)	(\$2,424,492)

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, short-term investments and trade and other receivables. 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 trade and other receivables, the Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

As at September 30, 2011 and December 31, 2010, the Company's exposure to credit risk for these financial instruments was as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Cash and cash equivalents	\$ 7,296,190	\$ 11,152,439
Short term investments	4,214,987	-
Trade and other receivables	1,826,639	2,992,007
	\$13,337,816	\$14,144,446

Trade and other receivables were aged as follows as at September 30, 2011 and December 31, 2010:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Current	\$ 1,413,273	\$ 2,507,325
31-60 days	203,305	399,352
Over 60 days	210,061	85,330
	\$ 1,826,639	\$ 2,992,007

Trade and other payables were aged as follows as at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Current	\$ 1,298,642	\$ 2,124,956
31-60 days	26,776	32,902
Over 60 days	3,551	7,093
	\$ 1,328,969	\$ 2,164,951

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 September 30, 2011 balances would have an approximate \$393,000 impact on net income. A 10% change in the Chinese yuan to Canadian dollar exchange rate on the September 30, 2011 balances would have an approximate \$4,200 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 September 30, 2011, 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 statement of financial position values with an offsetting adjustment of approximately \$1.21 million to translation of foreign operations reserve.

Interest Rate Risk

The Company's exposure to interest rate fluctuations is primarily interest earned on its cash and cash equivalents as well as its short-term investments. The Company has performed sensitivity analysis on interest rate risk at September 30, 2011 to determine how a change in interest rates would impact equity and net earnings. During the three months ended September 30, 2011, the Company earned \$27,408 of interest income on its cash and cash equivalents as well as its short-term investments. An increase or decrease of 100 basis points in the average interest rate earned during the period would have adjusted net earnings by approximately \$113,000. 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 preference shares without par value. As of November 10, 2011, the Company has 163,259,070 common shares outstanding and no preference shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect the lesser of (i) 10% less 1 share of the issued and outstanding common shares of the Company from time to time; and (ii) 30,000,000 common shares of the Company. As of November 10, 2011, the Company is entitled to grant incentive stock options for 16,325,906 common shares under the Company's stock option plan. Presently, a total of 9,659,016 options are issued and outstanding.

RISKS AND UNCERTAINTIES

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

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

Worsened General Economic Conditions

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

Additional Financing

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

Research and Development

If the Company fails to develop new products, incurs delays in developing new products, or if the 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 no assurance that the Company's losses will not continue in the future. As at September 30, 2011, the Company had an accumulated deficit of approximately \$106.0 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable.

Stock Price Volatility

The market price for the common shares of the Company fluctuates significantly, and these fluctuations tend to be exaggerated if the trading volume is low. The market price of the common shares may rise or fall in response to

announcements of technological or competitive developments, acquisitions or strategic alliances by the Company or its competitors, the gain or loss by the Company of significant orders or broad market fluctuations.

Product Development and Technological Change

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

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

Sales and Marketing and Strategic Alliances

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

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

Dependence on a Small Number of Customers

The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. During the three and nine months ended September 30, 2011, approximately 51% and 47% of the Company's consolidated revenue was attributable to its largest two customers. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Company. Moreover, the success of the Company will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

Length of Sales Cycle

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

Intellectual Property Protection

The Company's ability to compete may be affected by its ability to protect its intellectual property. It relies primarily on a combination of copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions to protect its intellectual property. While the Company believes that its products and technologies are

adequately protected against infringement, there can be no assurance of effective protection. Monitoring and identifying unauthorized use of the Company's technology is difficult, and the prohibitive cost of litigation may impair the Company's ability to prosecute any infringement. The commercial success of the Company will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being made against the Company. The Company believes that it is not infringing any intellectual property rights of third parties, but there can be no assurance that such infringement will not occur. An infringement claim against the Company by a third party, even if it is invalid, could have a material adverse effect on the Company because of the costs of defending against such a claim.

Competition

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

International Business Operations

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

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

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

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

Foreign Exchange Risk

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

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on anticipated revenues and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations

in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Dependence on Key Personnel

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

Acquisitions

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

Product Liability

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

Future Share Sales

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

Shareholder Rights Plan

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

Non-recurring Costs

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

Management of Growth

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

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

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

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal controls over financial reporting. This evaluation identified no instances in which internal controls did not operate in an effective manner. Nonetheless, the Company has further strengthened its internal control processes to mitigate future potential material financial statement misstatements and other internal control violations. No additional changes were made in the Company's internal control over financial reporting during the three and nine months ended September 30, 2011 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 September 30, 2011, 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 Intrinsyc Software International, Inc., certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of Intrinsyc Software International, Inc. (the “issuer”) for the interim period ended September 30, 2011.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim 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 interim filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim 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 interim 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 July 1, 2011 and ended on September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: November 10, 2011

“Tracy Rees”
Tracy Rees
Chief Executive Officer

FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS

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

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of Intrinsyc Software International, Inc. (the “issuer”) for the interim period ended September 30, 2011.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim 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 interim filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim 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 interim 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 July 1, 2011 and ended on September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: November 10, 2011

“George Reznik”
George Reznik
Chief Financial Officer