



**INTRINSYC TECHNOLOGIES CORPORATION**

**QUARTERLY REPORT**

**THIRD QUARTER FISCAL 2018**

**For the Three and Nine Months ended September 30, 2018 and 2017**

## Chief Executive Officer Letter

Dear Fellow Shareholder,

We are pleased to report another outstanding quarter of financial results. Revenue was US\$6.1 million (CDN\$8.0 million) which was an increase from US\$4.8 million (CDN\$6.0 million) in the third quarter of fiscal 2017, an increase of 26%. EBITDA was US\$513,074 (CDN\$670,587), a 787% increase. Net income was US\$346,477 (CDN\$443,840), an increase of 299% from the prior year. Earnings per share for the third quarter was US\$0.02 (CDN\$0.02).

Year-to-date revenue growth is up over 34% from the prior year. The strong revenue growth versus the prior year is a result of increased revenue from both embedded computing hardware and product development services. Improvement in gross margin due to higher services revenue and corresponding resource utilization was another bright spot in our performance. The Company also achieved record booked sales during the quarter in excess of US\$11.5 million; increasing the Company's backlog and setting a solid base for future revenue performance.

Our impressive results are the expected consequence of the strategic growth plan undertaken by the company that is focused on building a powerful suite of high-performance embedded computing modules for the Internet of Things market, in close collaboration with our industry-leading strategic technology partner, Qualcomm. We are both winning new customers and associated product development services, as well as showing the scalable revenue potential of our computing modules.

### **Business Highlights – Third Quarter of Fiscal 2018**

- Announced record booked sales of more than US\$11,500,000, surpassing the record booked orders attained in the previous quarter that exceeded US\$8,000,000 and included the following:
  - Receipt of orders from multiple clients that are in aggregate valued at US\$1,129,000. Orders for the Company's Open-Q™ embedded computing modules and related hardware components are valued at US\$419,000. The Company also received orders for software and product development services from clients valued at US\$710,000;
  - Receipt of an order valued at US\$604,000. Intrinsic will provide product development services for a leading communications and collaboration company. Intrinsic's Open-Q 835 System on Module ("μSOM") will be the starting point for their new product design;
  - Receipt of orders from four clients, that are in aggregate valued at US\$1,166,000. Orders for the Company's Open-Q™ embedded computing modules and related hardware components are valued at US\$292,000. The Company also received orders for software and product development services from clients valued at US\$874,000;
  - Receipt of purchase orders, from an existing Global 500 client that are valued at US\$5,431,000; and
  - Receipt of orders that are in aggregate valued at US\$1,181,000. Orders for the Company's Open-Q™ embedded computing modules and related hardware components were valued at US\$473,000, and engineering services agreements were valued at US\$708,000. Revenue from these orders is expected to be recorded in the fourth quarter of 2018 and first quarter of 2019.
- Entered into a 3G/4G Patent License Agreement with the Company's key technology partner for Development of Embedded Modules for use in M2M, IoT, and Telematics Devices
- Extended our normal course issuer bid ("NCIB") program to purchase, for cancellation, up to 1,793,294 common shares based upon ten percent of the public float, representing approximately 8.6% of Intrinsic's issued and outstanding common shares as at September 25, 2018

- Design wins increased from 53 to 56, with 25 of those design wins now in the production phase, which is consistent with the previous quarter.

### **Financial Highlights - Third Quarter of Fiscal 2018**

#### **Three Month Comparative Results**

The Company reported third quarter revenue of US\$6.1 million (CDN\$8.0 million), up 26% over the same period in the prior year of US\$4.8 million (CDN\$6.0 million) but down 5% over the prior period of US\$6.4 million (CDN\$8.3 million). The increase in revenue over the comparative period in the prior year was due primarily to increased revenue from the sale of hardware products. Although, revenue was reduced from the previous quarter the Company achieved higher EBITDA due to improved gross margin.

Gross margin for the three months ended September 30, 2018 was 38%, which was higher than the 34% gross margin for the three months ended June 30, 2018 and the 30% gross margin for the three months September 30, 2017. The increase in gross margin over the comparative periods was due to an increase in service revenue and corresponding higher engineering resource utilization, as well as a one-time licensing royalty. EBITDA was as follows:

	<b>Three months ended September 30, 2018</b>		<b>Three months ended June 30, 2018</b>		<b>Three months ended September 30, 2017 (Restated)</b>	
	<b>US\$</b>	<b>CDN\$</b>	<b>US\$</b>	<b>CDN\$</b>	<b>US\$</b>	<b>CDN\$</b>
Operating income (loss)	\$379,865	\$496,484	\$265,104	\$342,274	(\$ 144,032)	(\$ 180,445)
Add: revenue recognized as interest income as per IFRS	-	-	-	-	33,750	42,282
Add back: Other operating expenses	133,209	174,103	184,987	238,838	168,146	210,654
<b>EBITDA</b>	<b>\$513,074</b>	<b>\$670,587</b>	<b>\$450,091</b>	<b>\$581,112</b>	<b>\$ 57,864</b>	<b>\$72,491</b>

Net income for the three months ended September 30, 2018 was of US\$346,477 (CDN\$443,840) or US\$0.02 earnings per share (CDN\$0.02) compared to net income of US\$86,755 (CDN\$104,064) or US\$0.00 (CDN\$0.00) earnings per share in the same period in the prior year and net income of US\$85,492 (CDN\$115,975) or US\$0.01 (CDN\$0.01) earnings per share in the prior quarter.

#### **Nine Month Comparative Results**

The Company reported revenue of US\$18.6 million (CDN\$24.0 million), up 30% over the same period in the prior year of US\$13.9 million (CDN\$18.1 million). The increase in revenue over the comparative period was due primarily to increased revenue from the sale of hardware products.

Gross margin for the nine months ended September 30, 2018 was 35%, which was slightly higher than the 33% gross margin in the same period in the prior year. The increase was due to an increase in sales of product development services. EBITDA was as follows:

	Nine months ended September 30, 2018		Nine months ended September 30, 2017 (Restated)	
	US\$	CDN\$	US\$	CDN\$
Operating income (loss)	\$ 793,949	\$ 1,027,174	(\$ 170,320)	(\$ 216,109)
Add: revenue recognized as interest income as per IFRS	-	-	101,250	132,351
Add back: Other operating expenses	476,847	613,586	334,132	432,528
<b>EBITDA</b>	<b>\$ 1,270,796</b>	<b>\$ 1,640,760</b>	<b>\$ 265,062</b>	<b>\$ 348,770</b>

The Company had net income of US\$556,118 (CDN\$719,896) or US\$0.03 (CDN\$0.03) earnings per share during the nine months ended September 30, 2018, compared to net income of US\$171,289 (CDN\$213,769) or US\$0.00 (CDN\$0.00) during the same period in the prior year.

### Financial Position as at September 30, 2018

Working capital as of September 30, 2018 was US\$11.2 million (CDN\$14.5 million) inclusive of cash, cash equivalents and short-term investments of US\$7.4 million (CDN\$9.6 million). This is compared to net working capital of US\$12.5 million (CDN\$15.7 Million) as of December 31, 2017 inclusive of cash, cash equivalents and short-term investments of US\$7.3 million (CDN\$9.1 million).

### Looking Forward

As mentioned previously, for the past few years our growth strategy has been centered around building a portfolio of computing modules for the Internet of Things (“IoT”) market. Specifically, we have focused our efforts on adapting mobile processing technology from Qualcomm, to enable high-performance IoT applications. Qualcomm not only leads the industry in cellular connectivity technology, but also in the development of power efficient high-performance computing platforms. Through our strong technology partnership, we have access to the industry-leading technology that gives our products a competitive edge.

This month, we announced two new products: the Open-Q™ 670 Hardware Development Kit and the Open-Q™ 605 Single Board Computer and Development Kit.

Intrinsyc’s Open-Q™ 605 SBC is a compact (50mm x 68mm) production-ready SBC that provides powerful visual computing and edge computing for a variety of targeted applications including; industrial and consumer smart security cameras, action cameras, virtual reality (VR), robotics, smart displays, and more. The embedded computing platform is powered by the Qualcomm 400 Vision Intelligence Platform, featuring the Qualcomm® QCS605 system-on-chip (SoC) built specifically to support IoT devices requiring computer vision and AI.

To support the ecosystem of technology companies and application providers looking to utilize the advanced features of the Snapdragon 670, Intrinsyc Technologies Corporation is introducing the Open-Q™ 670 HDK. The HDK is an open-frame solution that empowers technology companies to integrate and innovate for devices based on the latest Snapdragon mobile platform, as well as provide original equipment manufacturers (“OEMs”), developers and engineers with next generation software technology and tools to accelerate development and testing of feature-rich mobile devices.

In the previous quarter, we announced the Open-Q™ 2500 SOM and the companion Open-Q™ 2500 Development Kit. The Open-Q™ 2500 SOM is an ultra-small form-factor (approx. 525mm<sup>2</sup>) computing module based on the [Qualcomm® Snapdragon™ Wear 2500 platform](#). It combines critical elements for wearable device innovation and performance: processing capability, size, power efficiency, sensor integration, and connectivity. It is ideally suited for pet, children, and elderly trackers, high-end fitness trackers, connected headsets, smart eyewear, and more. We began shipment of this platform in this quarter and we are completing development of a version of this module that is powered by a chip with an integrated LTE modem. This is Intrinsyc’s first product to be powered by one of

Qualcomm's processors with integrated cellular technology. We believe this will expand opportunities in the wearable market.

We intend to continue to build out our portfolio of embedded computing modules for the IoT market and will have other products to announce in late Q4 of 2018 and Q1 of 2019.

We exhibited and had two presentations at Qualcomm's 4G/5G Summit in Hong Kong, in October. Jonathon Mok, Solution Architect from our Taipei office participated in a panel discussion on development platforms based on Qualcomm's Snapdragon technology and I did a joint presentation with a Qualcomm product manager to discuss using Android Things and Intrinsic's smart home hub reference designs to build voice UI and deep learning features into IoT products for the home.

Intrinsic continues to purchase its shares on the open market as part of our Normal Course Issuer Bid. The Company believes that the market price of its common shares may not from time to time, fully reflect their value. In addition, the Company listed its shares on the OTCQX exchange on November 7, 2018 to future expand awareness to the United States investor community.

As we enjoy our operational and financial progress, we remain committed to improving shareholder value and always looking for new ways to drive long-term share price appreciation.

Yours sincerely,

*"Tracy Rees"*

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President and Chief Executive Officer  
November 14, 2018

# INTRINSYC TECHNOLOGIES CORPORATION

For the Three and Nine Months ended September 30, 2018

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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 condensed 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 interim condensed consolidated financial statements in accordance with the standards established by the Canadian Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

*“George Reznik”*  
Chief Financial Officer  
November 8, 2018

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Interim Condensed Consolidated Statements of Financial Position**

(Unaudited and Expressed in U.S. Dollars)

<b>As at</b>	<b>September 30, 2018</b>	<b>December 31, 2017 (Restated – See Note 3)</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,413,358	\$ 4,989,154
Short-term investments	2,015,253	2,260,089
Trade and other receivables (notes 4 and 12)	3,838,268	4,799,625
Loan to customer (note 5)	-	1,799,250
Inventory (note 6)	4,553,627	4,257,027
Prepaid expenses	93,060	159,784
	<b>15,913,566</b>	<b>18,264,929</b>
<b>Non-Current Assets</b>		
Prepaid expenses	24,835	27,417
Equipment (note 7)	323,412	345,618
Intangible assets (note 8)	136,517	118,591
Investment in customer (note 5)	1,814,384	-
<b>Total assets</b>	<b>\$ 18,212,714</b>	<b>\$ 18,756,555</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade and other payables	\$ 4,197,097	\$ 5,026,370
Deferred revenue	506,814	694,088
<b>Total liabilities</b>	<b>4,703,911</b>	<b>5,720,458</b>
<b>Shareholders' equity</b>		
Share capital (note 10)	108,545,842	108,899,883
Other capital reserves – share based payments	10,601,526	10,330,897
Deficit	(105,731,001)	(106,287,119)
Translation of operations reserve	92,436	92,436
<b>Total shareholders' equity</b>	<b>13,508,803</b>	<b>13,036,097</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 18,212,714</b>	<b>\$ 18,756,555</b>

Commitments and contingencies (note 11)

See accompanying notes to interim condensed consolidated financial statements



# INTRINSYC TECHNOLOGIES CORPORATION

## Interim Condensed Consolidated Statements of Operations

(Unaudited and Expressed in U.S. Dollars)

<b>For the</b>	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017 (Restated – See Note 3)</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017 (Restated – See Note 3)</b>
Revenues <i>(note 13)</i>	\$ 6,089,417	\$ 4,818,752	\$ 18,583,659	\$ 13,880,196
Cost of sales <i>(note 13)</i>	3,775,411	3,390,311	12,156,493	9,341,990
	2,314,006	1,428,441	6,427,166	4,538,206
<b>Expenses</b>				
Sales and marketing	650,237	608,700	1,952,719	2,002,413
Research and development	315,766	282,728	1,090,221	938,893
Administration	834,929	512,899	2,113,430	1,433,088
Other operating expenses <i>(note 15)</i>	133,209	168,146	476,847	334,132
	1,934,141	1,572,473	5,633,217	4,708,526
<b>Operating income (loss)</b>	379,865	(144,032)	793,949	(170,320)
<b>Other expenses (earnings)</b>				
Foreign exchange loss (gain)	61,631	(189,440)	288,899	(191,259)
Interest and other income	(35,745)	(62,275)	(88,816)	(180,596)
	25,886	(251,715)	200,083	(371,855)
<b>Income (loss) before income taxes</b>	353,979	107,683	593,866	201,535
Income tax expense	7,502	20,928	37,748	30,246
<b>Net income and comprehensive income for the period</b>	\$ 346,477	\$ 86,755	\$ 556,118	\$ 171,289
<b>Income per share (basic) <i>(note 10(f))</i></b>	\$0.02	\$0.00	\$0.03	\$0.00
<b>Income per share (fully diluted) <i>(note 10(f))</i></b>	\$0.02	\$0.00	\$0.03	\$0.00
<b>Weighted average number of shares outstanding – basic <i>(note 10(f))</i></b>	20,862,904	21,159,237	20,931,309	21,129,006
<b>Weighted average number of shares outstanding – fully diluted <i>(note 10(f))</i></b>	21,430,756	21,850,560	21,439,191	21,782,216

*See accompanying notes to interim condensed consolidated financial statements*

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Interim Condensed Consolidated Statements of Changes in Shareholders' Equity**

(Unaudited and Expressed in U.S. Dollars)

	Share Capital	Other Capital Reserves – Share Based Payments	Deficit (Restated – See Note 3)	Translation of Operations Reserve	Total Shareholders' Equity
<b>Balance, January 1, 2018</b>	\$108,899,883	\$ 10,330,897	(\$106,287,119)	\$ 92,436	\$ 13,036,097
Net income for the period	-	-	556,118	-	556,118
Issued upon exercise of stock options	81,622	-	-	-	81,622
Reclassification upon exercise of stock options	62,201	(62,201)	-	-	-
Shares repurchased and cancelled under Normal Course Issue Bid	(497,864)	-	-	-	(497,864)
Share-based compensation	-	332,830	-	-	332,830
<b>Balance, September 30, 2018</b>	<b>\$108,545,842</b>	<b>\$ 10,601,526</b>	<b>(\$105,731,001)</b>	<b>\$ 92,436</b>	<b>\$ 13,508,803</b>
<b>Balance, January 1, 2017</b>	<b>\$108,977,225</b>	<b>\$ 10,050,147</b>	<b>(\$106,911,955)</b>	<b>\$ 92,436</b>	<b>\$ 12,207,853</b>
Net income for the period	-	-	171,289	-	171,289
Issued upon exercise of stock options	44,477	-	-	-	44,477
Reclassification upon exercise of stock options	36,352	(36,352)	-	-	-
Share-based compensation	-	200,427	-	-	200,427
<b>Balance, September 30, 2017</b>	<b>\$109,058,054</b>	<b>\$ 10,214,222</b>	<b>(\$106,740,666)</b>	<b>\$ 92,436</b>	<b>\$ 12,624,046</b>

*See accompanying notes to interim condensed consolidated financial statements*

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Interim Condensed Consolidated Statements of Cash Flows**

(Unaudited and Expressed in U.S. Dollars)

<b>For the</b>	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017 (Restated – See Note 3)</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017 (Restated – See Note 3)</b>
<b>Cash provided by (used in):</b>				
<b>Operating Activities</b>				
Net income for the period	\$ 346,477	\$ 86,755	\$ 556,118	\$ 171,289
<b>Adjustments to reconcile net loss to net cash flows:</b>				
Depreciation of equipment (note 7)	26,755	25,467	75,824	72,485
Amortization of intangible assets (note 8)	23,140	19,884	68,193	61,220
Share-based compensation	83,314	122,795	332,830	200,427
Accrued interest on convertible loan	-	(45,000)	(15,134)	(135,000)
Unrealized foreign exchange	(72,686)	(127,284)	(88,434)	(126,468)
	407,000	82,617	929,397	243,953
<b>Working capital adjustments:</b>				
Trade and other receivables	73,565	(471,381)	962,222	(556,042)
Inventory	(628,249)	(645,240)	(296,600)	(1,105,725)
Prepaid expenses	10,777	(106,141)	69,306	(61,056)
Trade and other payables	279,463	677,680	(670,304)	1,003,719
Deferred revenue	(69,507)	240,926	(187,273)	412,054
	(333,951)	(304,156)	(122,649)	(307,050)
Cash provided by (used in) operating activities	73,049	(221,539)	806,748	(63,097)
<b>Investing Activities</b>				
Redemption (purchase) of short-term investments	(36,051)	(684,250)	233,882	(794,654)
Interest received on convertible loan (note 5)	-	11,250	-	56,250
Purchase of equipment (note 7)	(25,247)	(5,416)	(53,618)	(54,446)
Purchase of intangible assets (note 8)	-	(1,230)	(86,119)	(58,515)
Cash provided by (used in) investing activities	(61,298)	(679,646)	94,145	(851,365)
<b>Financing Activities</b>				
Issuance of common shares	70,851	15,643	81,622	44,477
Repurchase and cancellation of shares (note 10(e))	(102,994)	-	(497,864)	-
Cash provided by (used in) financing activities	(32,143)	15,643	(416,242)	44,477
Increase (decrease) in cash and cash equivalents	(20,392)	(885,542)	484,651	(869,985)
Foreign exchange effect on cash and cash equivalents	(11,816)	26,912	(60,447)	35,010
Cash and cash equivalents, beginning of the period	5,445,566	5,405,173	4,989,154	5,381,518
Cash and cash equivalents, end of the period	\$ 5,413,358	\$ 4,546,543	\$ 5,413,358	\$ 4,546,543

**Supplementary information**

Interest received	\$ 21,778	\$ 32,047	\$ 56,053	\$ 98,963
Income taxes paid	\$ 3,484	\$ 2,916	\$ 37,505	\$ 17,711

See accompanying notes to interim condensed consolidated financial statements

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited and Expressed in U.S. Dollars)

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## **1. REPORTING ENTITY**

Intrinsyc Technologies Corporation (formerly 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. Articles of Amendment were filed under the Canada Business Corporations Act on June 17, 2014 to change the name of the Company to Intrinsyc Technologies Corporation. The Company’s principal business office is Suite 300, 885 Dunsmuir Street, Vancouver, British Columbia, V6C 1N5 and its registered office is Suite 1700, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9.

The Company is an Internet of Things (“IoT”) product development company, offering hardware development kits, computing modules, proprietary software products, and engineering design and development services. These solutions are focused on the fast growing high-performance IoT product market; including; augmented and virtual reality, drones, robotics, digital signage, automotive, IP cameras, medical systems, wearable technology, and many others. The Company provides value by enabling device makers and technology suppliers to deliver compelling, next generation mobile and embedded wireless devices with faster time to market, higher quality, and differentiating innovation.

The interim condensed consolidated financial statements of the Company, as at, and for the three and nine months ended September 30, 2018 and September 30, 2017 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 interim condensed consolidated financial statements, which have been approved by the Board of Directors on November 8, 2018, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”). These interim condensed consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company’s annual financial statements as at and for the year ended December 31, 2017 (except for the adoption of new accounting standards effective January 1, 2018 – see below). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company’s annual financial statements as at and for the year ended December 31, 2017 (which were prepared in accordance with International Financial Reporting Standards, or “IFRS”).

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **New Standards Adopted**

The Company applied, for the first time, IFRS 9 - *Financial Instruments* and IFRS 15 - *Revenue from Contracts with Customers* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited and Expressed in U.S. Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **IFRS 9 – Financial Instruments: Classification and Measurement**

IFRS 9 - *Financial Instruments* replaces the current IAS 39 *Financial Instruments Recognition and Measurement*. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. The Company has evaluated the impact on the financial statements of IFRS 9 and concluded there was no impact to the financial statements.

#### *Financial Assets*

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as Held for Trading.
- Short-term investments are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as Available for Sale.
- Trade and other receivables are classified as financial assets at fair value through profit or loss and measured at fair value during the quotational period until the final settlement price is determined. Once the final settlement price is determined, trade receivables are classified as financial assets measured at amortized cost. Previously under IAS 39, Trade and other receivables were classified as Loans and Receivables measured at amortized cost.
- Investment in customer is classified as a financial asset measured at fair value using implied valuations from financing rounds with any change in value being recognized through Statement of Operations. Prior to May 2, 2018, this asset was recorded as Loan to customer which was measured at amortized cost. Previously under IAS 39, this amount was classified as Loans and Receivables measured at amortized cost

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial assets on the transition date.

#### *Financial Liabilities*

Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, canceled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Therefore, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Trade and other payables are classified as financial liabilities to be subsequently measured at amortized cost.

#### **IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 – *Revenue from Contracts with Customers* replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers. The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS 15 using the full retrospective transition method of adoption. Under the full retrospective transition method, the comparative figures for 2017 in the Company's unaudited interim consolidated financial statements have been restated.

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited and Expressed in U.S. Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company provides solutions to its customers referred to as Clients for the development and production of mobile, embedded, and Internet of Things (“IoT”) devices, with a legacy software solution for Java/COM enterprise interoperability software (“EIS”) and enters into contracts that include various goods and services promised to the customer. Determining whether the goods and services are considered distinct performance obligations may require significant judgment.

Revenue is allocated to the respective performance obligations based on relative transaction prices and is recognized as goods or services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred or services delivered. Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change. Where the amount of goods and services delivered to the customer corresponds directly to the amount invoiced, the Company recognizes revenue equal to what it has the right to invoice.

The Company makes judgments with respect to determining whether the promised goods and services are considered distinct performance obligations by considering the relationship of such promised goods and services; allocating the transaction price for each distinct performance obligation identified through stand-alone selling price and evaluating when a customer obtains controls of the goods or service promised.

The Company currently has two (2) business segments: Embedded Computing Hardware segment and Services and Software segment (see Note 13 – Segmented Information for description of each segment).

**Embedded Computing Hardware Segment**

Prior to the adoption of IFRS 15, revenue from the sale of embedded computing hardware (which includes both product development kits and production hardware products) was recognized upon either the 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 sold by the Company’s customers.

The adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition.

The Company generally provides warranties for general repairs of defects that existed at the time of sale, as required by law, for production hardware products. As such, most warranties are assurance-type warranties under IFRS 15, which the Group accounts for under IAS 37- *Provisions, Contingent Liabilities and Contingent Assets*, consistent with its practice prior to the adoption of IFRS 15.

**Services and Software Segment**

**Services**

The Company enters into contracts to provide services on the following basis:

- Time & Materials - services consist of revenues from software modification, consulting, implementation, training and integration services. These services are set forth separately in the contractual arrangements such that the total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services.
- Fixed Price – arrangements to render specific consulting and software modification services which tend to be more complex since these services are essential to the functionality of other elements in the arrangement.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Prior to the adoption of IFRS 15, the Company recognized service revenue from time and material arrangements 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 recognized service revenue from fixed price arrangements 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.

Under IFRS 15, the Company concluded that revenue from services will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the service similar to the previous accounting policy, because the customer simultaneously receives and consumes the benefits provided by the Company.

The adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition.

**Software**

The Company currently sells software licenses of its legacy software solution, EIS either on a perpetual basis or on a term-based basis as well as post contract customer support (“PCS”).

Prior to the adoption of IFRS 15, the Company recognized revenue from the sale of software licenses on perpetual basis upon the transfer of title to the customer, so long as persuasive evidence of an arrangement existed, delivery had occurred, the fee is fixed or determinable, and collectability was reasonably assured. The Company used the residual method to recognize revenue on delivered elements when a license agreement included one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements existed. If an undelivered element for the arrangement existed under the license arrangement, revenue related to the undelivered element was deferred based on Vendor Specific Objective Evidence (“VSOE”) of the fair value of the undelivered element. If the fair value did not exist for all undelivered elements, all revenue was deferred until sufficient evidence existed or as elements were delivered. For term-base licenses, the Company recognized revenue over the term, which usually was one (1) year. PCS revenue associated with software licenses was recognized rateably over the term of the PCS period, which typically was one year. Any unrecognized revenue is recorded in deferred revenue.

Under IFRS 15, the Company would recognize revenue from the sale of term-based licenses at the time the software is delivered to customer subject to all other criteria of revenue recognition being satisfied at this time since transfer of control to the customer occurs with no further obligation from the Company (see impact below)

There would be no impact on revenue recognition on the sale of perpetual licenses and PCS with the adoption of IFRS 15.

**Impact on Adoption of IFRS 15**

The Company has evaluated the impact on the financial statements of IFRS 15 and concluded that there was no material impact to the financial statements (see below).

The impact on amounts recognized in the Company's interim condensed consolidated statement of operations for the three months and nine months ended September 30, 2017, is shown below:

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

<b>Interim Condensed Consolidated Statements of Operations</b>	<b>Three months ended September 30, 2017– As reported prior to IFRS 15 transition</b>	<b>Adjustments</b>	<b>Three months ended September 30, 2017 – As restated after IFRS 15 transition</b>
Operating income (loss)	(\$ 137,781)	(\$ 6,251)	(\$ 144,032)
Income (loss) before income taxes	\$ 113,934	(\$ 6,251)	\$ 107,683
Net income (loss) and comprehensive income (loss) for the period	\$ 93,006	(\$ 6,251)	\$ 86,755

<b>Interim Condensed Consolidated Statements of Operations</b>	<b>Nine months ended September 30, 2017– As reported prior to IFRS 15 transition</b>	<b>Adjustments</b>	<b>Nine months ended September 30, 2017 – As restated after IFRS 15 transition</b>
Revenues	\$ 13,866,447	\$ 13,749	\$ 13,880,196
Operating income (loss)	(\$ 184,069)	\$ 13,749	(\$ 170,320)
Income (loss) before income taxes	\$ 187,786	\$ 13,749	\$ 201,535
Net income (loss) and comprehensive income (loss) for the period	\$ 157,540	\$ 13,749	\$ 171,289

The cumulative impact on amounts recognized in the Company's interim condensed consolidated statement of financial position as at December 31, 2017, is shown below:

<b>Interim Condensed Consolidated Statements of Financial Position</b>	<b>December 31, 2017– As reported prior to IFRS 15 transition</b>	<b>Adjustments</b>	<b>December 31, 2017 – As restated after IFRS 15 transition</b>
Deferred Revenue	\$ 729,505	(\$ 35,417)	\$ 694,088
Deficit	(\$ 106,322,536)	\$ 35,417	(\$ 106,287,119)

The cumulative impact on amounts recognized in the Company's interim condensed consolidated statement of changes in shareholders equity as at December 31, 2017, is shown below:

<b>Interim Condensed Consolidated Statements of Changes in Shareholders' Equity</b>	<b>December 31, 2017– As reported prior to IFRS 15 transition</b>	<b>Adjustments</b>	<b>December 31, 2017 – As restated after IFRS 15 transition</b>
Deficit – January 1, 2017	(\$ 106,964,873)	\$ 52,918	(\$ 106,911,955)
Deficit – December 31, 2017	(\$ 106,322,536)	\$ 35,417	(\$ 106,287,119)

The impact on amounts recognized in the Company's interim condensed consolidated statement of cashflows for the three and nine months ended September 30, 2017, is shown below:

<b>Interim Condensed Consolidated Statements of Cash Flows</b>	<b>Three months ended September 30, 2017– As reported prior to IFRS 15 transition</b>	<b>Adjustments</b>	<b>Three months ended September 30, 2017 – As restated after IFRS 15 transition</b>
Net income (loss)	\$ 93,006	(\$ 6,251)	\$ 86,755
Deferred revenue	\$ 234,675	\$ 6,251	\$ 240,926



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

<b>Interim Condensed Consolidated Statements of Cash Flows</b>	<b>Nine months ended September 30, 2017– As reported prior to IFRS 15 transition</b>	<b>Adjustments</b>	<b>Nine months ended September 30, 2017 – As restated after IFRS 15 transition</b>
Net income (loss)	\$ 157,540	\$ 13,749	\$ 171,289
Deferred revenue	\$ 425,803	(\$ 13,749)	\$ 412,054

There is no material impact to basic and fully diluted earnings per share.

**New Standards and Interpretations Not Yet Adopted**

Standards issued but not yet effective up to the date of issuance of the Company's interim condensed consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of the following standards on the interim condensed consolidated financial statements and intends to adopt these standards when they become effective.

**IFRS 16 - Leases**

*IFRS 16 – Leases.* The standard supersedes the current IAS 17, Leases (IAS 17) standard. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company is assessing the impact of this standard on its consolidated financial statements; however, the Company believes that the result will be an increase to assets and liabilities, as it will be required to record a right-of-use asset and a corresponding lease liability on the Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation.

**4. TRADE AND OTHER RECEIVABLES**

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Trade and other receivables	\$ 3,611,767	\$ 4,640,131
Less: Allowance for doubtful accounts	-	(128,197)
Unbilled revenue	226,501	287,691
	<b>\$ 3,838,268</b>	<b>\$ 4,799,625</b>

Included in trade and other receivables balance as at December 31, 2017 was an amount of \$60,000 which payable by a customer that had not been fully insured with Export Development Canada (“EDC” – see Note 12) by the Company. An allowance for the full amount had been taken and was included in Allowance for Doubtful Accounts as at December 31, 2017. During 2017, Company settled with this customer for \$60,000 (less third party collection fees). Payments were to be made in four (4) equal payments on October 10, 2017, October 24, 2017, November 7, 2017 and November 22, 2017. The Company only received one (1) payment during the nine months ended September 30, 2018 and reduced trade receivables and Allowance for Doubtful Accounts by \$45,000 as the customer went out of business.

At September 30, 2018, unbilled revenue on open contracts accounted for using the percentage of completion method amounted to \$226,501 (December 31, 2017 - \$287,691).

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## 5. INVESTMENT IN CUSTOMER

On October 1, 2014, the Company announced that it invested in Stream TV Networks, Inc. (“Stream TV”), a current customer of Intrinsic, an amount of \$1,500,000 in the form of a subordinated, secured convertible promissory note bearing interest at three percent (3%) per annum with a maturity date of December 31, 2015 (the “Note”). Interest is payable on the earlier of (i) December 31, 2015 or (ii) when converted to Stream TV shares. Stream TV committed to acquire a minimum of \$3,000,000 in Intrinsic products, services, and royalties over the next twelve months. This loan was classified as Loan to Customer.

The Note was initially convertible into the securities of Stream TV, at the sole option of Stream TV, subject to the execution of an equity financing of a minimum of \$15 million by Stream TV (the “Qualified Financing”). The Note was convertible into the class of securities sold in the Qualifying Financing at the share price issued in the Qualifying Financing.

The Company had determined that a reasonable market interest rate for a loan with the features of the Stream TV convertible loan and for pre-commercial entities in the emerging technology sector would be 12%. The Company recognized the difference as a deferred discount.

On December 10, 2015, the Company announced that the arrangements were amended to increase the purchase commitment by Stream TV to \$4,500,000 in Intrinsic product, services and royalties to be generated on or before March 31, 2016, which Stream TV met. In addition, the subordinated, secured convertible promissory note was amended to remove the conversion feature and to extend the maturity date from December 31, 2015 to June 30, 2016.

On June 28, 2016, the Company announced that the arrangements were further amended, to increase the purchase commitment to \$6,000,000 in Intrinsic products, services and royalties to be generated on or before December 30, 2016, which Stream TV has met. In addition, the subordinated, secured promissory note, valued at \$1.5 million, has been further amended to extend the maturity date from June 30, 2016 to December 30, 2016.

On December 29, 2016, the Company announced that the subordinated, secured promissory note, with a principal amount of \$1.5 million, has been further amended to extend the maturity date from December 30, 2016 to March 30, 2017. In consideration for the extension Intrinsic received 30,000 warrants convertible into Class A common shares in Stream TV, at a strike price of \$5 per share, on a 1 for 1 basis for a period of up to 5 years. The warrants may only be exercised if Stream TV becomes subject to a liquidity event defined in the warrant agreement as liquidation, dissolution, or winding up of Stream TV, whether voluntary or involuntary, or an Initial Public Offering (“IPO”) or sale of the Company by either stock or assets that is at least a change of control transaction. To date, none of these warrants have been exercised.

On February 2, 2017, the Company announced that the subordinated, secured promissory note, valued at \$1.5 million, has been further amended to extend the maturity date from March 30, 2017 to February 1, 2018. In consideration for the extension Intrinsic received 120,000 warrants convertible into Class A common shares in Stream at a strike price of \$5, on a 1 for 1 basis for a period of up to 5 years. The exercise of these warrants is also subject to the same terms as the warrants received December 29, 2016. To date, none of these warrants have been exercised. In addition, Stream TV committed to acquire a minimum of \$2,000,000 in Intrinsic products, services, and royalties to be purchased or generated between February 1, 2017 and February 1, 2018 (which Stream TV has only committed to approximately \$700,000).

On February 1, 2018, the Company announced that the subordinated, secured promissory note, valued at \$1.5 million, has been further amended to extend the maturity date from February 1, 2018 to April 2, 2018.

On April 2, 2018, the Company announced that the subordinated, secured promissory note, valued at \$1.5 million, had been further amended to extend the maturity date from April 2, 2018 to May 2, 2018.

On May 2, 2018, the Company announced that it made a strategic equity investment in Stream TV Networks through the conversion of the subordinated, secured promissory note and interest accrued for a total amount of \$1,661,384 into 415,346 common shares. The agreements between the parties also include Stream TV providing a commitment of

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**5. INVESTMENT IN CUSTOMER (continued)**

\$1,500,000 in services to be purchased directly or through connected party referrals during the eighteen (18) month period beginning May 1, 2018. The amount was reclassified as Investment in Customer.

The Company fair valued the warrants using a modified Black Scholes calculation with the fair value on the date of inception being \$153,000. This is included in the Investment in Customer (formerly Loan to Customer) on the Statement of Financial Position. The warrants are fair valued each period with no change to the value of the warrants as at September 30, 2018.

The Company has assessed the investment for impairment at the end of reporting period and concluded that no loss event has occurred since the conversion of the Note to an equity investment in Stream TV. However, the Company acknowledges that there is uncertainty regarding the valuation of the equity investment due to the uncertainty inherent to the fact that Stream TV is a pre-commercial entity in an emerging technology sector.

**6. INVENTORY**

	September 30, 2018	December 31, 2017
Parts	\$ 2,260,566	\$ 2,436,372
Finished goods	2,293,061	1,820,655
	<b>\$ 4,553,627</b>	<b>\$ 4,257,027</b>

During the three and nine months ended September 30, 2018, the Company charged \$2,773,087 and \$9,136,751 (three and nine months ended September 30, 2017 - \$2,435,268 and \$6,095,146) of inventory related amounts to cost of sales.

**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
<b>Balance, January 1, 2017</b>	<b>\$ 1,865,412</b>	<b>\$ 887,202</b>	<b>\$ 911,182</b>	<b>\$ 3,663,796</b>
Additions	57,969	36,011	-	93,980
<b>Balance, December 31, 2017</b>	<b>\$ 1,923,381</b>	<b>\$ 923,213</b>	<b>\$ 911,182</b>	<b>\$ 3,757,776</b>
Additions	33,502	20,116	-	53,618
<b>Balance, September 30, 2018</b>	<b>\$ 1,956,883</b>	<b>\$ 943,329</b>	<b>\$ 911,182</b>	<b>\$ 3,811,394</b>

**Accumulated Depreciation**

	Computers and Equipment	Furniture and Fixtures	Leasehold Improvements	Total
<b>Balance, January 1, 2017</b>	<b>(\$ 1,750,100)</b>	<b>(\$ 804,184)</b>	<b>(\$ 758,012)</b>	<b>(\$ 3,312,296)</b>
Depreciation	(42,828)	(30,776)	(26,258)	(99,862)
<b>Balance, December 31, 2017</b>	<b>(\$ 1,792,928)</b>	<b>(\$ 834,960)</b>	<b>(\$ 784,270)</b>	<b>(\$ 3,412,158)</b>
Depreciation	(33,301)	(22,830)	(19,693)	(75,824)
<b>Balance, September 30, 2018</b>	<b>(\$ 1,826,229)</b>	<b>(\$ 857,790)</b>	<b>(\$ 803,963)</b>	<b>(\$ 3,487,982)</b>

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**7. EQUIPMENT (continued)**

**Net Book Value**

	<b>Computers and Equipment</b>	<b>Furniture and Fixtures</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	\$ 130,453	\$ 88,253	\$ 126,912	\$ 345,618
<b>Balance, September 30, 2018</b>	\$ 130,654	\$ 85,539	\$ 107,219	\$ 323,412

**8. INTANGIBLE ASSETS**

The following table presents details of movement in the carrying value of the intangible assets which only consists of acquired software technology:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Beginning Balance</b>	<b>\$ 118,591</b>	<b>\$ 111,851</b>
Purchases	86,119	87,964
Amortization	(68,193)	(81,224)
<b>Ending Balance</b>	<b>\$ 136,517</b>	<b>\$118,591</b>

**9. LINE OF CREDIT**

On March 6, 2018, the Company entered into a line of credit agreement with its bank for up to CDN\$4.4 million. The line bears interest at chartered bank's prime lending rate +1.11% with no standby charge and does not include any covenants for the Company. Borrowings under this facility must not exceed the aggregate of the following, less Potential Prior-Ranking Claims:

- a) 75% of Good Canadian/US Accounts Receivable;
- b) 90% of Good EDC Accounts Receivable;
- c) 65% of Good Foreign Accounts Receivable; and
- d) to a maximum of \$750,000.00, 50% of the lesser of cost or net realizable value of Unencumbered Inventory.

As of September 30, 2018, outstanding borrowings were CDN \$nil.

**10. SHARE CAPITAL**

**Authorized**

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

**Issued and outstanding**

**[a] Preference Shares**

There are no preference shares outstanding as at September 30, 2018.

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**10. SHARE CAPITAL (continued)**

**[b] Common Shares**

	Number of common shares	Amount
<b>Outstanding, January 1, 2017</b>	<b>21,101,789</b>	<b>\$108,977,225</b>
Issued upon exercise of stock options	70,799	44,477
Reclassification upon exercise of stock options	-	36,350
Repurchase and cancellation of shares under Normal Course Issuer Bid	(111,600)	(158,169)
<b>Outstanding, December 31, 2017</b>	<b>21,060,988</b>	<b>\$108,899,883</b>
Issued upon exercise of stock options	184,682	81,622
Reclassification upon exercise of stock options	-	62,201
Repurchase and cancellation of shares under Normal Course Issuer Bid ( <i>see Note 10(e)</i> )	(379,600)	(497,864)
<b>Outstanding, September 30, 2018</b>	<b>20,866,070</b>	<b>\$108,545,842</b>

**[c] Stock options**

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) 3,750,000 common 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. There are no cash settlement alternatives. The Company does not have a past practice of cash settlement for these share options.

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, 2018, the Company was entitled to grant 2,086,606 incentive stock options under the plan of which 1,500,638 have been granted.

A summary of the Company's share option activity for the nine months ended September 30, 2018 is as follows:

	<b>Outstanding options</b>	
	Number of options	Weighted average exercise price (in Canadian dollars)
<b>Outstanding, January 1, 2017</b>	<b>1,063,615</b>	<b>\$ 0.84</b>
Options granted	432,500	2.03
Options exercised	(70,799)	0.82
Options forfeited	(108,087)	1.35
<b>Outstanding, December 31, 2017</b>	<b>1,317,229</b>	<b>\$ 1.22</b>
Options granted	422,950	1.36
Options exercised	(184,682)	0.58
Options forfeited	(54,859)	1.95
<b>Outstanding, September 30, 2018</b>	<b>1,500,638</b>	<b>\$ 1.31</b>

The following table summarizes the share options outstanding as at September 30, 2018:

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**10. SHARE CAPITAL (continued)**

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)
\$ 0.72 - \$ 0.88	278,850	0.76	\$ 0.80	278,600	\$ 0.80
\$ 0.89 - \$ 0.91	371,422	1.67	\$ 0.89	370,588	\$ 0.89
\$ 0.92 - \$ 1.34	392,950	4.28	\$ 1.32	63,079	\$ 1.22
\$ 1.35 - \$ 2.29	457,416	3.79	\$ 1.97	216,168	\$ 2.04
	<b>1,500,638</b>	<b>2.83</b>	<b>\$ 1.31</b>	<b>928,435</b>	<b>\$ 1.15</b>

The weighted average fair value of stock options granted during the three and nine months ended September 30, 2018 was CDN \$0.82 and CDN \$0.72 per share (three and nine months ended September 30, 2017 – CAD \$0.99 and CDN \$1.22 per share).

The total stock-based compensation calculated for three and nine months ended September 30, 2018 was \$59,650 and \$209,937 (three and nine months ended September 30, 2017 - \$74,678 and \$143,814 respectively).

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, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Expected life (in years)	4.2	4.2	4.0	3.9
Risk-free interest rate	2.02%	1.60%	1.97%	1.03%
Volatility	67.90%	80.48%	69.64%	80.97%
Dividend yield	0.00%	0.00%	0.00%	0.00%

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome either.

**[d] Restricted Share Units (“RSUs”)**

The Company adopted a restricted share unit plan (the “RSU Plan”) which was approved by its shareholders on May 16, 2017. The aggregate maximum number of shares available for issuance from treasury under the RSU Plan shall not exceed 500,000 shares. The 500,000 RSUs are a separate pool from the Company’s incentive stock option plan. The grant-date fair value of the restricted share units equals the fair market value of the corresponding shares at the grant date. The fair value of these equity-settled awards is recognized as compensation expense over the period that related services are rendered with a corresponding increase in equity. The total amount expensed is recognized over the vesting period on a tranche basis, which is the period over which all the specified vesting conditions should be satisfied.

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**10. SHARE CAPITAL (continued)**

A summary of the Company's RSU activity for the nine months ended September 30, 2018 is as follows:

	<b>Number of RSUs</b>
<b>Outstanding, January 1, 2017</b>	<b>219,000</b>
RSUs granted	-
RSUs exercised	-
RSUs forfeited	-
<b>Outstanding, December 31, 2017</b>	<b>219,000</b>
RSUs granted	-
RSUs exercised	-
RSUs forfeited	-
<b>Outstanding, September 30, 2018</b>	<b>219,000</b>

There were no RSUs granted during the three and nine months ended September 30, 2018 (for the three and nine months ended September 30, 2017, 219,000 RSUs were granted). The outstanding RSUs vest over three years as to one third on each anniversary of the grant date. Compensation for the three and nine months ended September 30, 2018 was \$23,664 and \$122,893 (\$48,117 and \$56,613 for the three and nine months ended September 30, 2017). As of September 30, 2018, one third (or 73,000) of the RSUs have vested.

**[e] Normal Course Issuer Bid ("NCIB")**

On September 29, 2017, the Company received approval from the TSX regarding the notice filed by the Company to establish a normal course issuer bid ("NCIB") program to purchase, for cancellation, up to 500,000 common shares or approximately 2.4% of Intrinsic's issued and outstanding common shares, as at September 21, 2017. The NCIB program commenced on October 4, 2017 and will terminate on October 3, 2018, or on such earlier date as the Company may complete its purchases pursuant to a Notice of Intention filed with the TSX.

In connection with the NCIB program, the Company established an automatic repurchase plan (the "Plan") with its designated broker to allow for purchases of its common shares during certain pre-determined black-out periods, subject to certain parameters as to price and number of shares. Outside of these pre-determined black-out periods, common shares will be repurchased in accordance with management's discretion, subject to applicable law. Intrinsic may vary, suspend or terminate the Plan only if it does not have material non-public information and the decision to vary, suspend or terminate the Plan is not taken during a pre-determined blackout period. The Plan constitutes an "automatic plan" for purposes of applicable Canadian securities legislation and has been reviewed by the TSX.

On September 27, 2018, the Company received approval from the TSX regarding the notice filed by the Company to extend its normal course issuer bid ("NCIB") program to purchase, for cancellation, up to 1,793,294 common shares or approximately 8.6% of Intrinsic's issued and outstanding common shares, as at September 25, 2018. The NCIB program extension commenced on October 4, 2018 and will terminate on October 3, 2019, or on such earlier date as the Company may complete its purchases pursuant to a Notice of Intention filed with the TSX. Like the initial NCIB, the Company established an automatic repurchase plan (the "Plan") with its designated broker to allow for purchases of its common shares during certain pre-determined black-out periods, subject to certain parameters as to price and number of shares.

As a result of entering into the Plan, the Company had initially recorded a liability of \$142,925 (CDN\$179,300) within current liabilities (and offset against share capital) which was reduced to \$1,971 (CDN\$2,541) as the Company repurchased shares under the Plan (with corresponding adjustment to Share Capital). On March 29, 2018, the Plan was renewed. As a result, the Company recorded an additional liability of \$165,532 (CDN\$213,000). As at September 30, 2018, the liability was \$94,344 (CDN\$122,128) as compared to \$18,296 (CDN\$ 22,952) as at December 31, 2017.

**INTRINSYC TECHNOLOGIES CORPORATION**  
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(Unaudited and Expressed in U.S. Dollars)

**10. SHARE CAPITAL (continued)**

During the three and nine months ended September 30, 2018, the Company had purchased and cancelled 94,900 common shares for \$105,950 (CDN\$138,036) and 379,600 common shares for \$417,864 (CDN\$540,338). There were no common shares cancelled during the three and nine months ended September 30, 2017.

**[f] Income (loss) per share**

	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>
Weighted average number of shares outstanding – basic	20,862,904	21,159,237	20,931,309	20,129,006
Dilutive effects of exercisable options	567,852	691,323	507,882	653,210
Weighted average number of shares outstanding – fully diluted	<b>21,430,756</b>	<b>21,850,560</b>	<b>21,439,191</b>	<b>21,782,216</b>

**11. COMMITMENTS AND CONTINGENCIES**

**[a]** Currently, the Company leases its Vancouver, BC facility (of approximately 12,000 square feet of office space) until October 31, 2022. In addition, it leases approximately 400 square feet in Taipei, Taiwan until December 31, 2018.

The aggregate of minimum lease payments as at September 30, 2018 for the remainder of 2018 and for subsequent years is as follows:

2018	\$ 82,924
2019	334,790
2020	337,884
2021	353,358
2022	294,465
	<b>\$ 1,403,421</b>

**[b]** 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.

**[c]** The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. To date, there are no claims or suits outstanding.



**INTRINSYC TECHNOLOGIES CORPORATION**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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**12. EXPORT DEVELOPMENT CANADA**

On July 31, 2009, the Company entered into an agreement with EDC whereby EDC agreed to provide 90% insurance coverage for the Company's invoiced sales for a premium of between CDN\$0.76 to CDN\$1.41 per CDN\$100 of monthly invoiced sales (certain customers are excluded from this coverage). The initial policy period was from July 1, 2009 to June 30, 2010 with an automatic yearly renewal unless the policy is terminated by the Company (the policy has been renewed until June 30, 2019). The maximum liability coverage at any one time is CDN\$185,000 for domestic sales and CDN\$7,000,000 for sales outside of Canada. As of September 30, 2018, 84% of trade receivables were covered by EDC insurance (December 31, 2017 – 74%)

During the three and nine months ended September 30, 2018, the Company recorded total premiums of \$48,515 (CDN\$63,410) and \$146,705 (CDN\$188,960) in sales and marketing as compared to total premiums of \$36,114 (CDN\$43,285) and \$108,980 (CDN\$142,617) for the three and nine months ended September 30, 2017.

**13. SEGMENTED INFORMATION**

**Operating segments**

The Company currently has the following two operating segments:

- Embedded Computing Hardware segment includes the sales of the Company's proprietary computer modules and development kits. The Company offers original equipment manufacturers ("OEMs") off-the-shelf and customized embedded computing modules.
- Services and Software segment includes turnkey product design and development services, as well as other engineering services and device software, including royalties. As well, it includes revenue generated from software products including: J-Integra® Enterprise Interoperability Software ("EIS"), and RapidRIL Telephony Software, including maintenance and support agreements for these products. These products and services are sold to OEMs, original device manufacturers ("ODMs"), technology providers, and other companies.

Corporate includes all operating expenses of the Company.

Information regarding the operations of each operating segment is included below. Performance is based on revenue less cost of sales.

A breakdown of revenues and cost of sales for each operating segment for the three and nine months ended September 30, 2018 and September 30, 2017 is as follows:

<b>Three months ended September 30, 2018</b>	<b>Embedded Computing Hardware</b>	<b>Services and Software</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 3,621,884	\$ 2,467,533	\$ -	\$ 6,089,417
Cost of sales	2,810,453	964,958	-	3,775,411
	811,431	1,502,575	-	2,314,006
Operating expenses	-	-	1,934,141	1,934,141
<b>Operating income (loss)</b>	<b>\$ 811,431</b>	<b>\$ 1,502,575</b>	<b>(\$1,934,141)</b>	<b>\$ 379,865</b>

**INTRINSYC TECHNOLOGIES CORPORATION**  
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(Unaudited and Expressed in U.S. Dollars)

**13. SEGMENTED INFORMATION (continued)**

<b>Three months ended September 30, 2017</b>	<b>Embedded Computing Hardware</b>	<b>Services and Software (Restated – See Note 3)</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 2,983,668	\$ 1,835,084	\$ -	\$ 4,818,752
Cost of sales	2,398,784	991,527	-	3,390,311
	584,884	843,557	-	1,428,441
Operating expenses	-	-	1,572,473	1,572,473
<b>Operating income (loss)</b>	<b>\$ 584,884</b>	<b>\$ 843,557</b>	<b>(\$1,572,473)</b>	<b>(\$ 144,032)</b>

<b>Nine months ended September 30, 2018</b>	<b>Embedded Computing Hardware</b>	<b>Services and Software</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 11,941,655	\$ 6,642,004	\$ -	\$ 18,583,659
Cost of sales	9,349,294	2,807,199	-	12,156,493
	2,592,361	3,834,805	-	6,427,166
Operating expenses	-	-	5,633,217	5,633,217
<b>Operating income (loss)</b>	<b>\$ 2,592,361</b>	<b>\$ 3,834,805</b>	<b>(\$5,633,217)</b>	<b>\$ 793,949</b>

<b>Nine months ended September 30, 2017</b>	<b>Embedded Computing Hardware</b>	<b>Services and Software (Restated – See Note 3)</b>	<b>Corporate</b>	<b>Total</b>
Revenue	\$ 7,881,269	\$ 5,998,927	\$ -	\$ 13,880,196
Cost of sales	6,158,347	3,183,643	-	9,341,990
	1,722,922	2,815,284	-	4,538,206
Operating expenses	-	-	4,708,526	4,708,526
<b>Operating profit (loss)</b>	<b>\$ 1,722,922</b>	<b>\$ 2,815,284</b>	<b>(\$4,708,526)</b>	<b>(\$170,320)</b>

**Geographic information**

The Company's equipment is located as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Canada	\$ 308,266	\$ 323,090
United States	-	6,959
Taiwan	15,146	15,569
<b>Total</b>	<b>\$ 323,412</b>	<b>\$ 345,618</b>

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

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited and Expressed in U.S. Dollars)

**13. SEGMENTED INFORMATION (continued)**

	Three Months ended September 30, 2018	Three Months ended September 30, 2017 (Restated – See Note 3)	Nine Months ended September 30, 2018	Nine Months ended September 30, 2017 (Restated – See Note 3)
United States	\$ 3,919,730	\$ 2,751,308	\$ 12,476,336	\$ 9,125,449
Asia Pacific	1,039,556	1,487,494	3,164,624	2,936,475
Europe	625,274	129,960	1,432,076	388,868
Canada	487,018	448,254	1,491,917	1,422,011
Other	17,839	1,736	18,706	7,393
	<b>\$ 6,089,417</b>	<b>\$ 4,818,752</b>	<b>\$ 18,583,659</b>	<b>\$ 13,880,196</b>

**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, 2018	Nine months ended September 30, 2018	% of Trades Receivable at September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2017	% of Trades Receivable at September 30, 2017
Customer 1	15%	25%	18%	18%	19%	11%
Customer 2	6%	3%	9%	12%	13%	20%

The above customers for the prior periods are referenced due to their being greater than the Company's 10% of total revenue threshold in the respective prior periods. Receivables owing from Customers 1-2 are fully covered by EDC insurance in the event of payment default.

**14. EXPENSES BY NATURE**

Total salaries and wages as well as other personnel related expenses included in Cost of Sales and Expenses for the three and nine months ended September 30, 2018 were \$2,102,836 and \$6,113,909 compared \$1,969,876 and \$6,112,994 during the three and nine months ended September 30, 2017.

**15. OTHER OPERATING EXPENSES**

Other operating expenses consist of the following:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Depreciation of equipment (note 7)	\$ 26,755	\$ 25,467	\$ 75,824	\$ 72,485
Amortization of intangible assets (note 8)	23,140	19,884	68,193	61,220
Share-based compensation – Options (note 10(c))	59,650	74,678	209,937	143,814
Share-based compensation – RSUs (note 10(d))	23,664	48,117	122,893	56,613
	<b>\$ 133,209</b>	<b>\$ 168,146</b>	<b>\$ 476,847</b>	<b>\$ 334,132</b>

**INTRINSYC TECHNOLOGIES CORPORATION**  
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(Unaudited and Expressed in U.S. Dollars)

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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 maintain a capital base so as to maintain investor, creditor, customer and market confidence.

The Company considers the items included in the interim condensed consolidated statements of changes in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it (by either issuing new shares or buying back shares) in the light of changes in economic conditions and the risk characteristics of the underlying assets.

**17. FINANCIAL INSTRUMENTS**

**[a] Financial assets and liabilities**

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The following financial instruments are all measured at amortized cost. The fair value of each (with the exception of the investment in customer) approximates its carrying value due to their short-term nature. The fair value of the investment in customer is determined using implied valuations from financing rounds. Therefore, it is treated as a Level 1 financial asset with the fair value equating its carry value.

The carrying values and fair values of financial assets (liabilities) as at September 30, 2018 and December 31, 2017 are summarized as follows:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b><u>Financial Assets</u></b>				
Cash and cash equivalents	\$ 5,413,358	\$ 5,413,358	\$ 4,989,154	\$ 4,989,154
Short-term investments	\$ 2,015,253	\$ 2,015,253	\$ 2,260,089	\$ 2,260,089
Trade and other receivables	\$ 3,838,268	\$ 3,838,268	\$ 4,799,625	\$ 4,799,625
Loan to customer	\$ -	\$ -	\$ 1,799,250	\$ 1,799,250
Investment in customer	\$ 1,814,384	\$ 1,814,384	\$ -	\$ -
<b><u>Financial Liabilities</u></b>				
Other Liabilities	(\$4,197,097)	(\$4,197,097)	(\$5,026,370)	(\$5,026,370)

**[b] Risk Management**

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

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited and Expressed in U.S. Dollars)

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**17. FINANCIAL INSTRUMENTS (continued)**

**[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, trade and other receivables and customer loan. 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 engages EDC to perform ongoing credit evaluations of Intrinsyc's customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

Trade and other receivables were aged as follows as at September 30, 2018 and December 31, 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Current	\$ 3,471,699	\$ 3,913,053
31-60 days	226,696	94,977
Over 60 days	139,873	791,595
	<b>\$ 3,868,268</b>	<b>\$ 4,799,625</b>

**[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.

Trade and other payables were aged as follows as at September 30, 2018 and December 31, 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Current	\$ 3,645,025	\$ 4,322,552
31-60 days	522,635	401,523
Over 60 days	29,437	302,295
	<b>\$ 4,197,097</b>	<b>\$ 5,026,370</b>

**[iii] Foreign Currency Risk**

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. With all other variables remaining constant, assuming a 10% weakening of the Canadian dollar versus the U.S. dollar would have had the following impact on net loss as follows in the table below. An assumed 10% strengthening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on the amounts shown below:

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**17. FINANCIAL INSTRUMENTS (continued)**

<i>Source of net earnings/loss variability from changes in foreign exchange rates</i>	<b>Three Months ended September 30, 2018</b>	<b>Three Months ended September 30, 2017</b>	<b>Nine Months ended September 30, 2018</b>	<b>Nine Months ended September 30, 2017</b>
Statement of Financial Position exposure	(\$218,946)	(\$284,683)	(\$218,946)	(\$284,683)
Net Cost of Sales/Operating Expenses (net exposure)	217,801	158,279	629,190	492,489
<b>Net exposure</b>	<b>(\$ 1,145)</b>	<b>(\$ 126,403)</b>	<b>\$ 410,244</b>	<b>\$ 207,806</b>

A 10% change in the New Taiwanese dollar to U.S. dollar exchange rate would have an approximate \$8,300 impact on net income for three and nine months ended September 30, 2017 (three and nine months ended September 30, 2017-\$13,000).

A 10% change in the rupee to U.S. dollar exchange rate would have no material impact on net income for the three and nine month ended September 30, 2018 (three and nine months ended September 30, 2018 - \$nil).

**[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. During the three months ended September 30, 2018, the Company earned \$25,260 of interest income on its cash and cash equivalents as well as its short-term investments and customer loan. An increase or decrease of 100 basis points in the average interest rate earned during the period would have adjusted net earnings by approximately \$74,000. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

**18. RELATED PARTY TRANSACTIONS**

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, 2018 and 2017 are as follows:

	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months Ended September 30, 2017</b>
Short-term compensation	\$ 252,982	\$ 241,954	\$ 861,672	\$ 751,160
Share-based payments	\$ -	\$ -	\$ 103,716	\$ 395,974
	<b>\$ 252,982</b>	<b>\$ 241,954</b>	<b>\$ 965,388</b>	<b>\$ 1,147,134</b>

Short-term compensation for the nine months ended September 30, 2018 included the Company's annual performance corporate bonus totalling an amount of \$90,000 which was paid to its management during the nine months ended September 30, 2018 which had been previously accrued for as operating expense during the year ended December 31, 2017. There was no annual performance corporate bonus paid out during the three and nine months ended September 30, 2017.

**INTRINSYC TECHNOLOGIES CORPORATION**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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**18. RELATED PARTY TRANSACTIONS (continued)**

The directors and key management were awarded 185,000 stock options under the Company's stock option plan during the nine months ended September 30, 2018. There were no options or RSUs awarded to directors and key management during the three months ended September 30, 2018.

The directors and key management were awarded 252,950 options under the Company's stock option plan during the nine months ended September 30, 2017 as well as 199,000 RSUs. There were no options or RSUs awarded to directors and key management during the three months ended September 30, 2017.

**19. EMPLOYEE RETIREMENT SAVINGS CONTRIBUTIONS**

	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>
Benefit costs	\$ 45,644	\$ 52,853	\$ 149,295	\$ 161,786

The Company matches employees' retirement savings contributions to retirement plans as part of the employee benefits plan. Employees have the option of having the funds transferred to their individual retirement savings plans on a semi-monthly basis or on a periodic basis (most employees have the funds transferred on a semi-monthly basis).

**19. SUBSEQUENT EVENT**

On November 7, 2018, the Company's common shares began trading on the premier tier of the OTC Markets Group in the United States: the OTCQX® Best Market. The Company's ticker symbol is "ISYRF."

# **INTRINSYC TECHNOLOGIES CORPORATION**

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

**For the Three and Nine Months Ended September 30, 2018**

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

This Management's Discussion and Analysis has been prepared by management as of November 8, 2018 and should be read in conjunction with the audited consolidated financial statements of Intrinsic Technologies Corporation (the "Company" or "Intrinsic") and related notes thereto for the year ended December 31, 2017 (prepared in accordance with International Financial Reporting Standards or "IFRS"). All amounts are presented in United States (U.S.) dollars unless otherwise noted. Additional information about the Company, including the Company's Annual Information Form ("AIF") is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **DISCLAIMER FOR FORWARD-LOOKING STATEMENTS**

The following Management's Discussion and Analysis contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions. The words "may", "would", "could", "will", "likely", "expect", "anticipate", "intend", "plan", "forecast", "project", "estimate" and "believe" or other similar words and phrases may identify forward-looking statements or information. Persons reading this 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; reliance on products manufactured by other companies for resale or distribution and reliance on third-party suppliers; 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, 2017, 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 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. On June 17, 2014, the Company changed its name to Intrinsic Technologies Corporation. The Company's principal business office is Suite 300, 885 Dunsmuir Street, Vancouver, British Columbia, V6C 1N5 and its registered office is Suite 1700, 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9. The Company is listed on the Toronto Stock Exchange ("TSX") under the trading symbol ITC.

The Company is a product developer and provides software, engineering services, and integrated solutions that enable next-generation embedded and wireless products. Solutions span the development life cycle from concept to production and help device makers and technology suppliers create compelling differentiated products with faster time-to-market.

## CORPORATE SUMMARY

The Company provides solutions for the development and production of embedded and Internet of Things ("IoT") devices. The Company's embedded computing products include embedded development kits, vertical market reference designs and development platforms, mobile application development platforms, and production-ready embedded computers.

These products, combined with Intrinsic's engineering services, help device makers and silicon vendors deliver embedded and IoT products with faster time-to-market, as well as improved innovation and quality. Additionally, the Company has legacy proprietary software that provides a bridge between Java and COM based computing platforms under the brand, J-Integra®.

The Company is focused on expanding its client base with new design wins for embedded computing products and accelerating time to market for client's products. Achievement of these objectives will provide a path to long-term scalable revenue. With this objective in mind the Company transitioned from primarily providing non-recurring engineering services to focus on the sales of embedded computing products, and complementary comprehensive product design and development services. As a result of this transition, the Company changed revenue segmentation and reporting from Embedded Solutions, General Engineering Services and Other Software Solutions to Embedded Computing Hardware and Services and Software. While Services and Software will provide a higher margin percentage, Embedded Computing is expected to be the engine for scalable revenue growth.

The Company's business segments are described below.

### Embedded Computing Hardware

The Embedded Computing Hardware segment includes the sales of the Company's proprietary computer modules, development kits, and related hardware technology.

- Production-ready embedded computing products include the Open-Q™ line of System on Modules ("SOM") and Single Board Computers ("SBC"); including the Open-Q™ 805, Open-Q™ 212A, Open-Q™ 410, Open-Q™ 820, Open-Q™ 835, Open-Q™ 624A, Open-Q™ 626, Open-Q™ 2100 SOM, Open-Q™ 2500 SOM and the Open-Q™ 600 SBC. The Open-Q™ family of products are based on Snapdragon™ technology from Qualcomm® Technologies Inc. The Company recently introduced the Open-X™ 8M SOM. The Open-X™ product line is based on i.MX processors from NXP Semiconductor, BV. The Company sells these solutions as production-ready computing products and also makes custom variants of these products that are tailored specifically to client requirements.
- Embedded hardware development kits ("HDK") include the, Open-Q™ 805 HDK, DragonBoard 810™, Open-Q™ 820 HDK, Open-Q™ 2100, Open-Q™ 626 HDK, Open-Q™ 660 HDK, Open-Q 835 HDK, and Open-Q™ 845 HDK, and Open-Q™ 600 SBC.

- Vertical market reference designs and development kits include the Snapdragon™ 820 Automotive Development Platform (“ADP”), Snapdragon™ Flight, Open-Q™ 410 Wearable Computing Reference Design, and two recently introduced development platforms running Android Things, that are targeted for smart home hub applications, the Open-Q 212A and Open-Q™ 624A development kits.
- In addition, the Company frequently designs, develops, and manufactures complementary peripheral boards that add additional functionality to Open-Q™ and Open-X SOMs and development kits.

The Company is building an expanding base of customers and prospects for the Open-Q™ and Open-X™ family of SOMs and custom embedded computing modules. Intrinsic’s customers build a diverse set of intelligent connected products, including many new and exciting emerging categories such as: smart glasses and other wearable technology, robotics, digital signage, and more. As these customers increase sales of their products, Intrinsic will benefit from repeat sales of our computing modules and/or design royalties. By working with range of customers, from startups to well established entities, Intrinsic can take advantage of the growth opportunities in these emerging device sectors, while limiting its exposure to any single new consumer or industrial product. The shared success business model being employed allows Intrinsic to better align with our customers’ business and product initiatives, while enjoying the potential for greater revenue and margin upside. The Company’s revenue could vary significantly from one quarter to the next due to the timing of customer production requirements.

Intrinsic’s computing modules are manufactured by two strategic manufacturing partners: one is based in North America to support quicker production lead times and smaller volume requirements, and the other based in China to support higher volume, lower cost, requirements. Computing modules are shipped to Intrinsic or directly to the customer based on order size and customer requirements. Typically, larger volume orders would be shipped fully manufactured and tested from Intrinsic’s contract manufacturer in China. The Company’s strategic manufacturing partners allow Intrinsic to respond quickly to customer requirements and scale revenue without additional investment in facilities or personnel resources. Scaling revenue without a commensurate increase in operating expenses should allow the Company to generate greater profit growth.

### **Services and Software**

The Company provides design and development services to silicon vendors, OEMs and ODMs building embedded and IoT devices. The Company’s capabilities in these areas are a product of over 20 years of embedded device development experience. As a result, the Company has developed core competencies in the areas of Board Support Package (“BSP”) and device driver development, power management, electrical, mechanical, and Radio Frequency (“RF”) design, testing and certification; all of which are complex and essential elements required to design and develop embedded and IoT devices.

The Company has cross platform capabilities on the key operating systems currently in the market for embedded and IoT devices: Microsoft Windows, QNX, Linux and Android operating systems.

The Company employs both a fixed fee pricing model and a time and materials pricing model for engineering services. Additionally, the Company may defer fees for product design or development services and collect fees in the form of per unit royalties.

Services and Software provided by the Company are as follows:

- Turnkey product development from concept through production, including development of product specifications, electrical, mechanical and RF design, BSP and driver development, and product test and certification services for OEMs developing embedded and IoT devices;
- Conducting feasibility studies, requirements analyses and architecture designs;
- Providing detailed technical training and support programs to OEMs;
- BSP and driver development;

- Electrical, Mechanical and RF Design;
- Field Programmable Gate Array (“FPGA”) Design and Development;
- Camera Driver Development and Tuning;
- Power management services for OEMs designing small form factor products which are needed to improve battery life while simultaneously increasing applications and features that drive growth in power utilization;
- Embedded and IoT application development;
- RapidRIL™ Telephony Software and wireless integration services;
- J-Integra, a scalable, high-performance middleware solution for connecting Java directly to .NET, COM, and Exchange objects.

## **SIGNIFICANT EVENTS FOR THIRD QUARTER OF 2018**

### **Financial Events**

- Revenue decreased by 5% from the three months ended June 30, 2018 but increased by 26% from the three months ended September 30, 2017. The decrease over the prior quarter was due to decreased revenues attributable to the Company’s Embedded Computing Hardware offset by an increase in the Services and Software business. The increase over the same period in prior year was due to increased revenues attributable to the Company’s Embedded Computing Hardware and Services and Software businesses.
- Expenses (excluding other operating expenses)<sup>1</sup> increased by 6% from the three months ended June 30, 2018 and by 28% from the three months ended September 30, 2017 due primarily to increased product development and technical support expenses, commissions, travel, professional fees and employee related costs.
- Net income for the three months ended September 30, 2018 was \$346,477 compared to net income of \$85,492 during the three months ended June 30, 2018 and net income of \$86,755 for the three months ended September 30, 2017.
- Cash provided by operations was \$73,049 during the three months ended September 30, 2018 compared to cash provided by operations of \$774,156 for the three months ended June 30, 2018 and cash used in operations of \$221,539 for the three months ended September 30, 2017.
- During the three months ended September 30, 2018 the Company purchased and cancelled 94,900 common shares for CDN\$138,036.
- On September 27, 2018, the Company received approval from the TSX regarding the notice filed by the Company to extend its normal course issuer bid (“NCIB”) program to purchase, for cancellation, up to 1,793,294 common shares or approximately 8.6% of Intrinsic’s issued and outstanding common shares, as at September 25, 2018. The NCIB program extension commenced on October 4, 2018 and will terminate on October 3, 2019, or on such earlier date as the Company may complete its purchases pursuant to a Notice of Intention filed with the TSX.
- On November 7, 2018, the Company’s common shares began trading on the premier tier of the OTC Markets Group in the United States: the OTCQX® Best Market. The Company’s ticker symbol is “ISYRF.”

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<sup>1</sup> Expenses (excluding other operating expenses) is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers (it includes Sales and Marketing, Research and Development, and Administration expenses but excludes Other Operating Expenses). This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate its cash operating expenses.

## Business Highlights

- Announced it had record booked sales of more than \$11,500,000, surpassing the record booked orders attained in the previous quarter that exceeded \$8,000,000 and included the following:
  - Receipt of orders from multiple clients that are in aggregate valued at \$1,129,000. Orders for the Company's Open-Q™ embedded computing modules and related hardware components are valued at \$419,000. The Company also received orders for software and product development services from clients valued at \$710,000;
  - Receipt of an order valued at \$604,000. Intrinsic will provide product development services for a leading communications and collaboration company. Intrinsic's Open-Q 835 system on module ("μSOM") will be the starting point for their new product design;
  - Receipt of orders from four clients, that are in aggregate valued at \$1,166,000. Orders for the Company's Open-Q™ embedded computing modules and related hardware components are valued at \$292,000. The Company also received orders for software and product development services from clients valued at \$874,000;
  - Receipt of purchase orders, from an existing Global 500 client that are valued at \$5,431,000; and
  - Receipt of orders that are in aggregate valued at \$1,181,000. Orders for the Company's Open-Q™ embedded computing modules and related hardware components were valued at \$473,000, and engineering services agreements were valued at \$708,000. Revenue from these orders is expected to be recorded in the fourth quarter of 2018 and first quarter of 2019.
- Entered into a 3G/4G Patent License Agreement with the Company's key technology partner for Development of Embedded Modules for use in M2M, IoT, and Telematics Devices
- Design wins increased from 53 to 56, with 25 of those design wins now in the production phase, which is consistent with the previous quarter.

## SELECTED QUARTERLY INFORMATION

The information in the tables below has been derived from the Company's unaudited interim condensed consolidated financial statements (excluding EBITDA<sup>2</sup>). 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. Prior reported numbers have been restated to account for the impact of IFRS 15 (additional details on IFRS 15 are discussed in Critical Accounting Policies and Estimates section in this MD&A).

### Consolidated Statements of Financial Position

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
				(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
<i>(in US\$ '000's)</i>								
Cash and cash equivalents	\$5,413	\$5,446	\$4,841	\$4,989	\$4,547	\$5,405	\$3,488	\$5,382
Short-term investments	\$2,015	\$2,019	\$2,010	\$2,260	\$3,132	\$2,297	\$4,242	\$2,169
Working capital	\$11,210	\$10,788	\$12,550	\$12,544	\$12,576	\$12,582	\$12,572	\$12,562
Total assets	\$18,213	\$17,728	\$16,103	\$18,757	\$16,825	\$15,627	\$15,233	\$14,910
Shareholders' equity	\$13,509	\$13,111	\$13,037	\$13,036	\$12,624	\$12,399	\$12,332	\$12,208

<sup>2</sup> EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. EBITDA referenced here relates to operating income (loss) inclusive of revenue reclassified as interest income (as per IFRS) less other operating expenses. The closest comparable IFRS financial measure is Operating Income (Loss). This measure is used by the Company to manage and evaluate the cash operating income (loss) of the business.

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended December 31, 2017 (Restated)	Three months ended September 30, 2017 (Restated)	Three months ended June 30, 2017 (Restated)	Three months ended March 31, 2017 (Restated)	Three months ended December 31, 2016 (Restated)
<i>(in US\$ '000's, except earnings per share)</i>								
Revenue	\$6,089	\$6,432	\$6,062	\$6,782	\$4,819	\$4,584	\$4,478	\$4,286
Add: Stream TV revenue recognized as finance interest income	-	-	-	-	34	34	34	34
Cost of sales	3,775	4,276	4,105	4,441	3,390	3,058	2,894	2,760
Gross margin	2,314	2,156	1,957	2,341	1,463	1,560	1,618	1,560
<i>Expenses:</i>								
Sales and marketing expenses	650	659	643	671	609	664	730	657
Research and development expenses	316	377	397	376	283	353	303	286
Administration expenses	835	669	609	723	513	449	472	390
EBITDA	513	451	308	571	58	94	113	227
Other expenses (earnings)	159	357	161	117	(50)	103	10	24
Income tax expense	8	8	23	-	21	4	6	12
Net income (loss)	\$346	\$86	\$124	\$454	\$87	(\$13)	\$97	\$191
Net income (loss) per share (basic and fully diluted)	\$0.02	\$0.00	\$0.01	\$0.02	\$0.00	\$0.00	\$0.00	\$0.01

## FINANCIAL RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

The following analysis of the results of operations for the three months ended September 30, 2018 includes comparisons to the three months ended June 30, 2018 and September 30, 2017.

### Revenue

The Company currently segregates revenue into two segments:

- Embedded Computing Hardware segment includes the sales of the Company's proprietary computer modules and development kits. The Company offers OEMs off-the-shelf and customized embedded computing modules.
- Services and Software segment includes turnkey product design and development services, as well as other engineering services and device software, including royalties. As well, it includes revenue generated from software products including: J-Integra® Enterprise Interoperability Software ("EIS"), and RapidRIL Telephony Software, including maintenance and support agreements for these products. These products and services are sold to OEMs, original device manufacturers ("ODMs"), technology providers, and other companies.

<i>Revenue by Source</i>	Three months ended September 30, 2018		Three months ended June 30, 2018		Three months ended September 30, 2017 (Restated)	
	\$	%	\$	%	\$	%
Services and Software	\$ 2,467,533	41%	\$ 2,163,107	34%	\$ 1,835,084	38%
Embedded Computing Hardware	3,621,884	59%	4,268,712	66%	2,983,668	62%
<b>Total revenue</b>	<b>\$ 6,089,417</b>	<b>100%</b>	<b>\$ 6,431,819</b>	<b>100%</b>	<b>\$ 4,818,752</b>	<b>100%</b>

Revenue decreased by 5% from the three months ended June 30, 2018 but increased by 26% from the three months ended September 30, 2017. The decrease over the prior quarter was due to decreased revenues attributable to the Company's Embedded Computing Hardware offset by an increase in the Services and Software business. The increase over the same period in prior year was due to increased revenues attributable to the Company's Embedded Computing Hardware and Services and Software businesses.

Services and Software revenue was approximately \$2.5 million during the three months ended September 30, 2018 as compared to approximately \$2.2 million for the three months ended June 30, 2018 and approximately \$1.8 million for the three months ended September 30, 2017. This increase over the comparative periods was due to higher service revenue related to the development of customer products based on the Company's Embedded Computing products.

Total revenues attributable to the Company's Embedded Computing Hardware decreased by 15% during the three months ended September 30, 2018 compared to the three months ended June 30, 2018 but increased by 21%

compared to the three months ended September 30, 2017. This increase over the same period in the prior year was due primarily to increased sales of Development Kits and embedded computing modules. The decrease over the prior quarter was due to decreased sales of Development Kits and embedded computing modules.

To date, the Company has had a significant portion of its revenue derived from its largest 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:

	<b>Three months ended September 30, 2018</b>	<b>Three months ended June 30, 2018</b>	<b>Three months ended September 30, 2017</b>
Revenue	\$942,879	\$2,173,576	\$1,427,891
<b>Percentage of total revenue</b>	<b>15%</b>	<b>34%</b>	<b>30%</b>

There was one (1) customer that accounted for 15% of the total revenue for the three months ended September 30, 2018 as compared one (1) customer that accounted for 34% of the total revenues for the three months ended June 30, 2018 and two (2) customers that accounted 30% of the total revenues for the three months ended September 30, 2017.

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

	<b>Three months ended September 30, 2018</b>		<b>Three months ended June 30, 2018</b>		<b>Three months ended September 30, 2017 (Restated)</b>	
		%		%		%
United States	\$ 3,919,730	64%	\$ 4,466,158	69%	\$ 2,751,308	57%
Asia Pacific	1,039,556	17%	1,075,183	17%	1,487,494	31%
Europe	625,274	10%	422,819	7%	129,960	9%
Canada	487,018	8%	467,659	7%	448,254	3%
Other	17,839	<1%	-	-%	1,736	<1%
	<b>\$ 6,089,417</b>	<b>100%</b>	<b>\$ 6,431,819</b>	<b>100%</b>	<b>\$ 4,818,752</b>	<b>100%</b>

The Company continues to generate the majority of its revenue from the United States market but there has been an increase in revenues from the Asia Pacific region.

### Gross Margin<sup>3</sup>

Gross margins vary by revenue segment, with aggregate gross margin being typically in the range of 35% to 55% for Services and Software segment and 15% to 25% for Embedded Computing segment. As a result, the overall gross margin is a blend of the margins attributable to each respective business segment.

	<b>Three months ended September 30, 2018</b>		<b>Three months ended June 30, 2018</b>		<b>Three months ended September 30, 2017 (Restated)</b>	
		%		%		%
Revenues	\$ 6,089,417	100%	\$ 6,431,819	100%	\$ 4,818,752	100%
Cost of sales	3,775,411	62%	4,276,019	66%	3,390,311	70%
<b>Gross margin</b>	<b>\$ 2,314,006</b>	<b>38%</b>	<b>\$ 2,155,800</b>	<b>34%</b>	<b>\$ 1,428,441</b>	<b>30%</b>

The Company's cost of sales includes Canadian and New Taiwan Dollar denominated costs which are translated into the Company's U.S. functional currency. Gross margin for the three months ended September 30, 2018 was 38%, which was higher than the 34% gross margin for the three months ended June 30, 2018 and the 30% gross margin for

<sup>3</sup> Gross Margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross Margin referenced here relates to revenues less cost of sales. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the operating performance of the Company.

the three months September 30, 2017. Increase in gross margin over the three months ended June 30, 2018 and September 30, 2017 was due to an increase in service revenue which has a higher gross margin.

## Expenses

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017
Sales and marketing	\$ 650,237	\$ 659,364	\$ 608,700
Research and development	315,766	377,030	282,728
Administration	834,929	669,315	512,899
Other operating expenses	133,209	184,987	168,146
<b>Total expenses</b>	<b>\$ 1,934,141</b>	<b>\$ 1,890,696</b>	<b>\$ 1,572,473</b>
<b>As a percentage of total revenue</b>	<b>32%</b>	<b>29%</b>	<b>33%</b>

Expenses during the three months ended September 30, 2018 were higher than the three months ended June 30, 2018. This was due to an increase in travel, employee related costs (inclusive of an increase in the current year performance bonus) and professional fees offset by decrease in product development costs and stock-based compensation.

Expenses during the three months ended September 30, 2018 were higher than the three months ended September 30, 2017. This was due to increased product development and technical support expenses, commissions, travel, professional fees, employee related costs (inclusive of an increase in current year performance bonus) and stock-based compensation.

## Sales and Marketing

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017
Sales and marketing	\$650,237	\$659,364	\$608,700
<b>As a percentage of total revenue</b>	<b>11%</b>	<b>10%</b>	<b>13%</b>

The Company had a total of ten (10) employees and contractors in Sales and Marketing as at September 30, 2018 which is lower than then eleven (11) employees and contractors as at September 30, 2017. Sales and marketing expense consists primarily of salaries and related personnel costs, sales commissions, consulting fees, trade show expenses, marketing collateral, advertising costs and facilities.

The decrease in sales and marketing expense over the previous three months ended June 30, 2018 was due to a decrease in commissions

The increase in sales and marketing expense over the previous three months ended September 30, 2017 was due to an increase in commissions, travel and marketing costs.

## Research and Development

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017
Research and development	\$315,766	\$377,030	\$282,728
<b>As a percentage of total revenue</b>	<b>5%</b>	<b>6%</b>	<b>6%</b>

Research and development expenses relate primarily to salaries and related benefit costs, and also include materials related to the development of the Company's embedded computing products. Research and development costs for the three months ended September 30, 2018 were lower than the prior period due to product development costs but higher than the three months ended September 30, 2017 due to increased product development costs.

## Administration

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017
Administration	\$834,929	\$669,315	\$512,899
<b>As a percentage of total revenue</b>	<b>14%</b>	<b>10%</b>	<b>11%</b>

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

The increase over the comparable periods was due to primarily an increase in employee related costs (inclusive of and increase to the current year performance bonus) as well as increased travel and professional fees.

## Other Operating Expenses

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017
Depreciation of equipment	\$ 26,755	\$ 25,101	\$ 25,467
Amortization of intangible assets	23,140	24,628	19,884
Share-based compensation	83,314	135,258	122,795
<b>Total other operating expenses</b>	<b>\$ 133,209</b>	<b>\$ 184,987</b>	<b>\$ 168,146</b>

## EBITDA

EBITDA was \$513,074 for the three months ended September 30, 2018 compared to \$450,091 for the three months ended June 30, 2018 and \$57,864 for the three months ended September 30, 2017.

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017 (Restated)
Operating income (loss)	\$ 379,865	\$ 265,104	(\$144,032)
Add: revenue recognized as interest income as per IFRS	-	-	33,750
Add back: Other operating expenses	133,209	184,987	168,146
<b>EBITDA</b>	<b>\$ 513,074</b>	<b>\$ 450,091</b>	<b>\$ 57,864</b>

## Other Expenses (Earnings)

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017
Foreign exchange loss (gain)	\$ 61,631	\$ 193,448	(\$ 189,440)
Interest and other income	(35,745)	(21,367)	(62,275)
<b>Total other expenses (earnings)</b>	<b>\$ 25,886</b>	<b>\$ 172,081</b>	<b>(\$ 251,715)</b>

Other expenses for the three months ended September 30, 2018 was attributable to a foreign exchange loss of \$61,631 offset by interest and other income of \$35,745. Other expenses for the three months ended June 30, 2018 was attributable to a foreign exchange loss of \$193,448 offset by interest and other income of 21,367. Other earnings for the three months ended September 30, 2017 was attributable to a foreign exchange gain of \$189,440 and by interest and other income of \$62,275. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated into its U.S. dollar functional currency which accounted for the majority of the foreign exchange gain reported above due to the weakening of the Canadian dollar as at September 30, 2018 over the prior periods.



## Net Income (Loss)

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017 (Restated)
Operating income	\$ 379,865	\$ 265,104	(\$ 144,032)
Total other expenses (earnings)	25,886	172,081	(251,715)
Income tax expense	7,502	7,531	20,928
<b>Net income (loss)</b>	<b>\$ 346,477</b>	<b>\$ 85,492</b>	<b>\$ 86,755</b>
<b>Earnings (loss) per share (basic and fully diluted)</b>	<b>\$0.02</b>	<b>\$0.00</b>	<b>\$0.00</b>

Net income for the three months ended September 30, 2018 was \$346,477 or \$0.02 earnings per share compared to net income for the three months ended June 30, 2018 of \$85,492 or \$0.00 earnings per share and to net earnings of \$86,755 or \$0.00 earnings per share for the three months ended September 30, 2017.

## FINANCIAL RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

The following analysis of the results of operations for the nine months ended September 30, 2018 includes comparisons to the nine-month period ended September 30, 2017.

### Revenue

<i>Revenue by Source</i>	Nine months ended September 30, 2018	%	Nine months ended September 30, 2017 (Restated)	%	Change
Services and Software	\$ 6,642,005	36%	\$5,998,927	43%	11%
Embedded Computing Hardware	11,941,654	64%	7,881,269	57%	52%
<b>Total revenue</b>	<b>\$18,583,659</b>	<b>100%</b>	<b>\$13,880,196</b>	<b>100%</b>	<b>34%</b>

The increase in revenue is attributable to increased revenues attributable to the Company's Embedded Computing business.

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, 2018	Nine months ended September 30, 2017	Change
Revenue	\$4,724,511	\$4,460,074	6%
<b>Percentage of total revenue</b>	<b>25%</b>	<b>32%</b>	

During the nine months ended September 30, 2018, one (1) customer accounted for 25% of the total revenue while two (2) customers accounted for 32% of the total revenue for the nine months ended September 30, 2017.

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

	Nine months ended September 30, 2018		Nine months ended September 30 2017 (Restated)		Change
	\$	%	\$	%	
United States	12,476,336	67%	9,125,449	66%	37%
Asia Pacific	3,164,624	17%	2,936,475	21%	8%
Europe	1,432,076	8%	1,422,011	10%	1%
Canada	1,491,917	8%	388,868	3%	284%
Other	18,706	<1%	7,393	<1%	153%
<b>Total revenue</b>	<b>\$ 18,583,659</b>	<b>100%</b>	<b>\$ 13,880,196</b>	<b>100%</b>	<b>34%</b>

The Company generates the majority of its revenue from the United States market.

### Gross Margin

Gross margins vary by revenue segment, with aggregate gross margin being typically in the range of 35% to 55% for Services and Software segment and 15% to 25% for Embedded Computing segment. As a result, the overall gross margin is a blend of the margins attributable to each respective business segment.

	Nine months ended September 30, 2018		Nine months ended September 30, 2017 (Restated)		Change
	\$	%	\$	%	%
Revenues	18,583,659	100%	13,880,196	100%	38%
Cost of sales	12,156,493	65%	9,341,990	67%	41%
<b>Gross margin</b>	<b>\$ 6,427,166</b>	<b>35%</b>	<b>\$ 4,538,206</b>	<b>33%</b>	<b>33%</b>

The gross margin percentage for the nine months ended September 30, 2018 was slightly higher as compared to the nine months ended September 30, 2017 due to a change in the revenue mix in which revenue from the Services and Software line of business increased resulting in a higher gross margin.

### Expenses

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
Sales and marketing	\$ 1,952,719	\$ 2,002,413	(2%)
Research and development	1,090,221	938,893	16%
Administration	2,113,430	1,433,088	47%
Other operating expenses	476,847	334,132	43%
<b>Total expenses</b>	<b>\$ 5,633,217</b>	<b>\$ 4,708,526</b>	<b>20%</b>
<b>As a percentage of total revenue</b>	<b>30%</b>	<b>34%</b>	

The increase in total operating expenses was due primarily to an increase in employee related costs (inclusive of increase in performance bonus), professional fees, stock-based compensation and costs related to the development of new products.

## Sales and Marketing

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
Sales and marketing	\$ 1,952,719	\$ 2,002,413	(2%)
<b>As a percentage of total revenue</b>	<b>11%</b>	<b>14%</b>	

Total sales and marketing expenses for nine months ended September 30, 2018 decreased when compared to the nine months ended September 30, 2017 due to a decrease in employee related costs, and travel and entertainment as well as advertising and promotion.

## Research and Development

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
Research and development	\$ 1,090,221	\$ 938,893	16%
<b>As a percentage of total revenue</b>	<b>6%</b>	<b>7%</b>	

Research and development costs for the nine months ended September 30, 2018 increased over the nine months ended September 30, 2017 due to higher employee related costs as a result of the increased investment in the development of new products.

## Administration

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
Administration	\$ 2,113,430	\$ 1,433,088	47%
<b>As a percentage of total revenue</b>	<b>11%</b>	<b>10%</b>	

Administration costs for the nine months ended September 30, 2018 increased over the nine months ended September 30, 2017 due to an increase in travel expense, employee related costs (inclusive of increase in performance bonus), professional fees, and professional fees. There was a reversal of a prior year accrued bonus which occurred in the comparable quarter.

## Other Operating Expenses

	Nine months ended September 30, 2018	Nine months ended September 30, 2017	Change
Depreciation of equipment	\$ 75,824	\$ 72,485	5%
Amortization of intangible assets	68,193	61,220	11%
Share-based compensation	332,830	200,427	66%
<b>Total other operating expenses</b>	<b>\$ 476,847</b>	<b>\$ 334,132</b>	<b>43%</b>

## EBITDA

EBITDA was \$1,270,796 for the nine months ended September 30, 2018 compared to \$265,062 for the nine months ended September 30, 2017.

	Nine months ended September 30, 2018	Nine months ended September 30, 2017 (Restated)
Operating income (loss)	\$ 793,949	(\$ 170,320)
Add: revenue recognized as interest income as per IFRS	-	101,250
Add back: Other operating expenses	476,847	334,132
<b>EBITDA</b>	<b>\$ 1,270,796</b>	<b>\$ 265,062</b>

#### Other Expenses (Earnings)

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Foreign exchange loss (gain)	\$ 288,899	(\$ 191,259)
Interest and other income	(88,816)	(180,596)
<b>Total other expenses (earnings)</b>	<b>\$ 200,083</b>	<b>(\$ 371,855)</b>

Other expenses for the nine months ended September 30, 2018 was attributable to a foreign exchange loss of \$288,899 offset by interest and other income of \$88,816. Net other earnings for the nine months ended September 30, 2017 was attributable to a foreign exchange gain of \$191,259 and interest and other income of \$180,596.

#### Net Income

	Nine months ended September 30, 2018	Nine months ended September 30, 2017 (Restated)
Operating income (loss)	\$ 793,949	(\$ 170,320)
Total other expenses (earnings)	200,083	(371,855)
Income tax expense	37,748	30,246
<b>Net income</b>	<b>\$ 556,118</b>	<b>\$ 171,289</b>
<b>Earnings per share (basic and fully diluted)</b>	<b>\$0.03</b>	<b>\$0.00</b>

Net income for the nine months ended September 30, 2018 was \$556,118 or \$0.03 earnings per share compared to net income for the nine months ended September 30, 2017 which was \$171,289 or \$0.00 earnings per share.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's near-term cash requirements relate primarily to operations, working capital and general corporate purposes. Based on the current business plan, the Company believes cash and cash equivalents, along with its short-term investments will be sufficient to fund the Company's operating requirements for the next twelve months. The Company updates its forecasts on a regular basis and will consider additional financing sources as appropriate.

As at September 30, 2018, the Company had cash and cash equivalents totalling approximately \$5.4 million and short-term investments totalling approximately \$2.0 million with working capital<sup>4</sup> of approximately \$11.2 million, as compared to cash and cash equivalents of approximately \$5.0 million and short-term investments totalling approximately \$2.3 million with working capital of approximately \$12.5 million as at December 31, 2017.

<sup>4</sup> Working Capital is a non-IFRS 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 IFRS measure. Working capital as referenced herein is defined as current assets less current liabilities. The Company believes that the inclusion of this non-IFRS financial measure provides investors with an alternative presentation useful to investors' understanding of the Company's core operating results and trends.

### Three Months ended September 30, 2018

	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended September 30, 2017
<b>Cash provided by (used in):</b>			
Operating activities	\$ 73,049	\$ 774,156	(\$ 221,539)
Investing activities	(61,298)	(32,711)	(679,646)
Financing activities	(32,143)	(146,827)	15,643
Foreign exchange effect on cash and cash equivalents	(11,816)	10,238	26,912
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(\$ 32,208)</b>	<b>\$ 604,856</b>	<b>(\$ 858,630)</b>

Cash provided by (used in) operating activities for comparable periods was attributable the Company's financial performance.

During the three months ended September 30, 2018, cash used in investing activities was related to the redemption and subsequent repurchase of short-term investments offset by the purchase of equipment and intangible assets. During the three months ended June 30, 2018, cash used in investing activities was related to the redemption and subsequent repurchase of short-term investments offset by the purchase of equipment and intangible assets. During the three months ended September 30, 2017 cash used in investing activities was related to the purchase of short-term investments as well as the purchase of equipment and intangible assets offset by interest received on the Stream TV loan.

During the three months ended September 30, 2018, cash used in financing activities consisted of the exercise of employee stock options offset by the repurchase and cancellation of shares under the Company's Normal Course Issuer Bid ("NCIB"). During the three months ended June 30, 2018, cash used in financing activities consisted of the exercise of employee stock options offset by the repurchase and cancellation of shares under the Company's Normal Course Issuer Bid ("NCIB"). During the three months ended September 30, 2017, cash provided by financing activities consisted of the exercised of stock options.

### Nine Months ended September 30, 2018

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>Cash provided by (used in):</b>		
Operating activities	\$ 806,748	(\$ 63,097)
Investing activities	94,145	(851,365)
Financing activities	(416,242)	44,477
Foreign exchange effect on cash and cash equivalents	(60,447)	35,010
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 424,204</b>	<b>(\$ 834,975)</b>

Cash provided by (used in) operating activities for comparable periods was attributable the Company's financial performance.

Cash provided by investing activities during the six months ended September 30, 2018 was related to the redemption and subsequent purchase of short-term investments that had matured offset by the purchase of equipment and intangible assets. Cash used in investing activities during the nine months ended September 30, 2017 was related to the purchase of short-term investments as well as the purchase of equipment and intangible assets offset by interest received on the Stream TV convertible loan offset.

During the nine months ended September 30, 2018, cash used in financing activities consisted of the exercise of employee stock options offset by the repurchase and cancellation of shares under the Company's Normal Course Issuer Bid ("NCIB"). During the nine months ended September 30, 2017, cash provided by financing activities consisted of the exercised of stock options.

## STAFFING LEVELS

The following table summarizes the Company's headcount, consisting of employees and contractors, by functional group:

	As at September 30, 2018	As at June 30, 2018	As at September 30, 2017
Service engineers	43	43	41
Sales and marketing	10	12	11
Research and development	20	20	11
Administration	16	15	12
<b>Total</b>	<b>89</b>	<b>90</b>	<b>75</b>

Effort spent to develop new proprietary products was classified as research and development.

## COMMITMENTS

The aggregate of minimum lease payments as at September 30, 2018 for subsequent years is as follows:

2018	\$ 82,924
2019	334,790
2020	337,884
2021	353,358
2022	294,465
	<hr/>
	\$ 1,403,421

Currently, the Company leases its Vancouver, BC facility (of approximately 12,000 square feet of office space) until October 31, 2022. In addition, it leases approximately 400 square feet in Taipei, Taiwan until December 31, 2018.

## ACCOUNTS RECEIVABLE INSURANCE

On July 31, 2009, the Company entered into an agreement with Export Development Canada ("EDC") whereby EDC agreed to provide 90% insurance coverage for the Company's invoiced sales for a premium of between CDN\$0.76 to CDN\$1.41 per CDN\$100 of monthly invoiced sales (certain customers are excluded from this coverage). The initial policy period was from July 1, 2009 to June 30, 2010 with an automatic yearly renewal unless the policy is terminated by the Company (the policy has been renewed until June 30, 2019). The maximum liability coverage at any one time is CDN\$185,000 for domestic sales and CDN\$7,000,000 for sales outside of Canada. As of September 30, 2018, 84% of trade receivables were covered by EDC insurance (December 31, 2017 – 74%).

During the three and nine months ended September 30, 2018, the Company recorded total premiums of \$48,515 (CDN \$63,410) and \$146,705 (CDN\$188,960) in sales and marketing as compared to total premiums of \$36,114 (CDN \$43,285) and \$108,980 (CDN\$142,617) for the three and nine months ended September 30, 2017.

## TRANSACTIONS WITH RELATED PARTIES

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, 2018 and 2017 are as follows:

	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months Ended September 30, 2017</b>
Short-term compensation	\$ 252,982	\$ 241,954	\$ 861,672	\$ 751,160
Share-based payments	\$ -	\$ -	\$ 103,716	\$ 395,974
	<b>\$ 252,982</b>	<b>\$ 241,954</b>	<b>\$ 965,388</b>	<b>\$ 1,147,134</b>

Short-term compensation for the nine months ended September 30, 2018 included the Company's annual performance corporate bonus totalling an amount of \$90,000 which was paid to its management during the nine months ended September 30, 2018 which had been previously accrued for as operating expense during the year ended December 31, 2017. There was no annual performance corporate bonus paid out during the three and nine months ended September 30, 2017.

The directors and key management were awarded 185,000 stock options under the Company's stock option plan during the nine months ended September 30, 2018. There were no options or RSUs awarded to directors and key management during the three months ended September 30, 2018.

The directors and key management were awarded 252,950 options under the Company's stock option plan during the nine months ended September 30, 2017 as well as 199,000 RSUs. There were no options or RSUs awarded to directors and key management during the three months ended September 30, 2017.

## **INVESTMENT IN CUSTOMER**

On October 1, 2014, the Company announced that it invested in Stream TV Networks, Inc. ("Stream TV"), a current customer of Intrinsic, an amount of \$1,500,000 in the form of a subordinated, secured convertible promissory note bearing interest at three percent (3%) per annum with a maturity date of December 31, 2015 (the "Note"). Interest is payable on the earlier of (i) December 31, 2015 or (ii) when converted to Stream TV shares. Stream TV committed to acquire a minimum of \$3,000,000 in Intrinsic products, services, and royalties over the next twelve months. This loan was classified as Loan to Customer.

The Note was initially convertible into the securities of Stream TV, at the sole option of Stream TV, subject to the execution of an equity financing of a minimum of \$15 million by Stream TV (the "Qualified Financing"). The Note was convertible into the class of securities sold in the Qualifying Financing at the share price issued in the Qualifying Financing.

The Company had determined that a reasonable market interest rate for a loan with the features of the Stream TV convertible loan and for pre-commercial entities in the emerging technology sector would be 12%. The Company recognized the difference as a deferred discount.

On December 10, 2015, the Company announced that the arrangements were amended to increase the purchase commitment by Stream TV to \$4,500,000 in Intrinsic product, services and royalties to be generated on or before March 31, 2016, which Stream TV met. In addition, the subordinated, secured convertible promissory note was amended to remove the conversion feature and to extend the maturity date from December 31, 2015 to June 30, 2016.

On June 28, 2016, the Company announced that the arrangements were further amended, to increase the purchase commitment to \$6,000,000 in Intrinsic products, services and royalties to be generated on or before December 30, 2016, which Stream TV has met. In addition, the subordinated, secured promissory note, valued at \$1.5 million, has been further amended to extend the maturity date from June 30, 2016 to December 30, 2016.

On December 29, 2016, the Company announced that the subordinated, secured promissory note, with a principal amount of \$1.5 million, has been further amended to extend the maturity date from December 30, 2016 to March 30, 2017. In consideration for the extension Intrinsic received 30,000 warrants convertible into Class A common shares in Stream TV, at a strike price of \$5 per share, on a 1 for 1 basis for a period of up to 5 years. The warrants may only be exercised if Stream TV becomes subject to a liquidity event defined in the warrant agreement as liquidation, dissolution, or winding up of Stream TV, whether voluntary or involuntary, or an Initial Public Offering ("IPO") or sale of the Company by either stock or assets that is at least a change of control transaction. To date, none of these warrants have been exercised.

On February 2, 2017, the Company announced that the subordinated, secured promissory note, valued at \$1.5 million, has been further amended to extend the maturity date from March 30, 2017 to February 1, 2018. In consideration for the extension Intrinsic received 120,000 warrants convertible into Class A common shares in Stream at a strike price of \$5, on a 1 for 1 basis for a period of up to 5 years. The exercise of these warrants is also subject to the same terms as the warrants received December 29, 2016. To date, none of these warrants have been exercised. In addition, Stream TV committed to acquire a minimum of \$2,000,000 in Intrinsic products, services, and royalties to be purchased or generated between February 1, 2017 and February 1, 2018 (which Stream TV has only committed to approximately \$700,000).

On February 1, 2018, the Company announced that the subordinated, secured promissory note, valued at \$1.5 million, has been further amended to extend the maturity date from February 1, 2018 to April 2, 2018. Subsequent to April 2, 2018, the note had been further amended (see Subsequent Events section below)

On April 2, 2018, the Company announced that the subordinated, secured promissory note, valued at \$1.5 million, had been further amended to extend the maturity date from April 2, 2018 to May 2, 2018.

On May 2, 2018, the Company announced that it made a strategic equity investment in Stream TV Networks through the conversion of the subordinated, secured promissory note and interest accrued for a total amount of \$1,661,384 into 415,346 common shares. The agreements between the parties also include Stream TV providing a commitment of \$1,500,000 in services to be purchased directly or through connected party referrals during the eighteen (18) month period beginning May 1, 2018. The amount was reclassified as Investment in Customer.

The Company fair valued the warrants using a modified Black Scholes calculation with the fair value on the date of inception being \$153,000. This is included in the Investment in Customer (formerly Loan to Customer) on the Statement of Financial Position. The warrants are fair valued each period with no change to the value of the warrants as at September 30, 2018.

The Company has assessed the investment for impairment at the end of reporting period and concluded that no loss event has occurred since the conversion of the Note to an equity investment in Stream TV. However, the Company acknowledges that there is uncertainty regarding the valuation of the equity investment due to the uncertainty inherent to the fact that Stream TV is a pre-commercial entity in an emerging technology sector.

## **SUBSEQUENT EVENT**

On November 7, 2018, the Company's common shares began trading on the premier tier of the OTC Markets Group in the United States: the OTCQX® Best Market. The Company's ticker symbol is "ISYRF."

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

These consolidated financial statements of the Company, approved by the Board of Directors on August 8, 2018, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB").

### **Revenue Recognition**

The Company currently recognizes revenues under IFRS 15 - *Revenue from Contracts with Customers*. Revenues consist of services 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. 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 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.

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

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

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

### **Allowance for Doubtful Accounts**

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

### **New Standards Adopted**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards effective as of 1 January 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 9 - *Financial Instruments* and IFRS 15 - *Revenue from Contracts with Customers* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Company

### **IFRS 9 – Financial Instruments: Classification and Measurement**

IFRS 9 - *Financial Instruments* replaces the current IAS 39 *Financial Instruments Recognition and Measurement*. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The Company began application of IFRS 9 in the financial statements effective from January 1, 2018. The Company has evaluated the impact on the financial statements of IFRS 9 and concluded there was no impact to the financial statements. Additional information regarding the impact of the adoption of IFRS 9 is presented in Note 3 of the interim condensed consolidated financial statements.

### **IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 – *Revenue from Contracts with Customers*. The standard replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers. The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a

customer. The Company has applied the full retrospective transition method. The Company is party to numerous contracts with customers that will be impacted by the new standard. Under IFRS 15, the timing of revenue recognition for certain contracts are impacted by the new revenue recognition model. Additional information regarding the impact of the adoption of IFRS 15 (which the Company concluded is not material) is presented in Note 3 of the interim condensed consolidated financial statements. The impact on the quarterly financial results are as follows:

#### Consolidated Statements of Financial Position

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
<i>(in US\$ '000's)</i>								
Cash and cash equivalents	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Short-term investments	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Working capital	\$-	\$-	\$-	\$35	\$67	\$73	\$63	\$53
Total assets	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Shareholders' equity	\$-	\$-	\$-	\$35	\$67	\$73	\$63	\$53

#### Consolidated Statements of Operations

	Three months ended June 30, 2018	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended December 31, 2017	Three months ended September 30, 2017	Three months ended June 30, 2017	Three months ended March 31, 2017	Three months ended December 31, 2016
<i>(in US\$ '000's, except earnings per share)</i>								
Revenue	\$-	\$-	\$-	(\$32)	(\$6)	\$10	\$10	(\$19)
Add: Stream TV revenue recognized as finance interest income	-	-	-	-	-	-	-	-
Cost of sales	-	-	-	-	-	-	-	-
Gross margin	-	-	-	(32)	(6)	10	10	(19)
Expenses:								
Sales and marketing expenses	-	-	-	-	-	-	-	-
Research and development expenses	-	-	-	-	-	-	-	-
Administration expenses	-	-	-	-	-	-	-	-
EBITDA	-	-	-	(32)	(6)	10	10	(19)
Other expenses (earnings)	-	-	-	-	-	-	-	-
Income tax expense	-	-	-	-	-	-	-	-
Net income (loss)	\$-	\$-	\$-	(\$32)	(\$6)	\$10	\$10	(\$19)
Net income (loss) per share (basic and fully diluted)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

## New Standards and Interpretations Not Yet Adopted

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of the following standards on the consolidated financial statements and intends to adopt these standards when they become effective.

### IFRS 16 - Leases

*IFRS 16 – Leases.* The standard supersedes the current IAS 17, Leases (IAS 17) standard. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of this standard on its consolidated financial statements; however, the Company believes that the result will be an increase to assets and liabilities, as it will be required to record a right-of-use asset and a corresponding lease liability on the Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The following financial instruments are all measured at amortized cost. The fair value of each (with the exception of the investment in customer) approximates its carrying value due to their short-term nature. The fair value of the investment in customer is determined using implied valuations from financing rounds. Therefore, it is treated as a Level 1 financial asset, as with the fair value equating its carry value.

The carrying values and fair values of financial assets (liabilities) as at June 30, 2018 and December 31, 2017 are summarized as follows:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b><u>Financial Assets</u></b>				
Cash and cash equivalents	\$ 5,413,358	\$ 5,413,358	\$ 4,989,154	\$ 4,989,154
Short-term investments	\$ 2,015,253	\$ 2,015,253	\$ 2,260,089	\$ 2,260,089
Trade and other receivables	\$ 3,838,268	\$ 3,838,268	\$ 4,799,625	\$ 4,799,625
Loan to customer	\$ -	\$ -	\$ 1,799,250	\$ 1,799,250
Investment in customer	\$ 1,814,384	\$ 1,814,384	\$ -	\$ -
<b><u>Financial Liabilities</u></b>				
Other Liabilities	(\$4,197,097)	(\$4,197,097)	(\$5,026,370)	(\$5,026,370)

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, trade and other receivables and customer loan. 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 engages EDC to perform ongoing credit evaluations of Intrinsic's customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

Trade and other receivables were aged as follows as at September 30, 2018 and December 31, 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Current	\$ 3,471,699	\$ 3,913,053
31-60 days	226,696	94,977
Over 60 days	139,873	791,595
	<b>\$ 3,868,268</b>	<b>\$ 4,799,625</b>

### **Liquidity Risk**

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

Trade and other payables were aged as follows as at September 30, 2018 and December 31, 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Current	\$ 3,645,025	\$ 4,322,552
31-60 days	522,635	401,523
Over 60 days	29,437	302,295
	<b>\$ 4,197,097</b>	<b>\$ 5,026,370</b>

## Foreign Currency Risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. With all other variables remaining constant, assuming a 10% weakening of the Canadian dollar versus the U.S. dollar would have had the following impact on net loss as follows in the table below. An assumed 10% strengthening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on the amounts shown below:

<i>Source of net earnings/loss variability from changes in foreign exchange rates</i>	<b>Three Months ended September 30, 2018</b>	<b>Three Months ended September 30, 2017</b>	<b>Nine Months ended September 30, 2018</b>	<b>Nine Months ended September 30, 2017</b>
Statement of Financial Position exposure	(\$218,946)	(\$284,683)	(\$218,946)	(\$284,683)
Net Cost of Sales/Operating Expenses (net exposure)	217,801	158,279	629,190	492,489
<b>Net exposure</b>	<b>(\$ 1,145)</b>	<b>(\$ 126,403)</b>	<b>\$ 410,246</b>	<b>\$ 207,806</b>

A 10% change in the New Taiwanese dollar to U.S. dollar exchange rate would have an approximate \$8,300 impact on net income for three and nine months ended September 30, 2017 (three and nine months ended September 30, 2017 - \$13,000).

A 10% change in the rupee to U.S. dollar exchange rate would have no material impact on net income for the three and nine month ended September 30, 2018 (three and nine months ended September 30, 2018 - \$nil)

## 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. During the three months ended September 30, 2018, the Company earned \$25,260 of interest income on its cash and cash equivalents as well as its short-term investments and customer loan. An increase or decrease of 100 basis points in the average interest rate earned during the period would have adjusted net earnings by approximately \$74,000. 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 and an unlimited number of preference shares. As of November 8, 2018, the Company has 20,817,070 common shares issued and outstanding and no preference shares issued and 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) 3,750,000 common shares. As of November 8, 2018, the Company is entitled to grant incentive stock options for 2,081,706 common shares under the Company's stock option plan, of which 1,506,722 have been granted.

The Company has adopted a restricted share unit plan (the "RSU Plan") which was approved by its shareholders on May 16, 2017. The aggregate maximum number of shares available for issuance from treasury under the RSU Plan shall not exceed 500,000 shares. The fair value of these equity-settled awards is recognized as compensation expense over the period that related services are rendered with a corresponding increase in equity. The total amount expensed is recognized over the vesting period on a tranche basis, which is the period over which all the specified vesting conditions should be satisfied. As of November 8, 2018, the Company has granted 219,000 RSUs.

On September 29, 2017, the Company received approval from the TSX regarding the notice filed by the Company to establish a normal course issuer bid (“NCIB”) program to purchase, for cancellation, up to 500,000 common shares or approximately 2.4% of Intrinsic’s issued and outstanding common shares, as at September 21, 2017. The NCIB program commences on October 4, 2017 and will terminate on October 3, 2018, or on such earlier date as the Company may complete its purchases pursuant to a Notice of Intention filed with the TSX.

On September 27, 2018, the Company received approval from the TSX regarding the notice filed by the Company to extend its normal course issuer bid (“NCIB”) program to purchase, for cancellation, up to 1,793,294 common shares or approximately 8.6% of Intrinsic’s issued and outstanding common shares, as at September 25, 2018. The NCIB program extension commenced on October 4, 2018 and will terminate on October 3, 2019, or on such earlier date as the Company may complete its purchases pursuant to a Notice of Intention filed with the TSX. Like the initial NCIB, the Company established an automatic repurchase plan (the “Plan”) with its designated broker to allow for purchases of its common shares during certain pre-determined black-out periods, subject to certain parameters as to price and number of shares.

In connection with the NCIB program, the Company established an automatic repurchase plan (the “Plan”) with its designated broker to allow for purchases of its common shares during certain pre-determined black-out periods, subject to certain parameters as to price and number of shares. Outside of these pre-determined black-out periods, common shares will be repurchased in accordance with management’s discretion, subject to applicable law. Intrinsic may vary, suspend or terminate the Plan only if it does not have material non-public information and the decision to vary, suspend or terminate the Plan is not taken during a pre-determined blackout period. The Plan constitutes an “automatic plan” for purposes of applicable Canadian securities legislation and has been reviewed by the TSX.

As of November 8, 2018, the Company had purchased and cancelled 495,100 common shares under the initial NCIB and 45,100 common shares under the NCIB extension.

## **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:

### **General Economic Conditions May Weaken**

Global economic conditions are currently relatively positive. However economic conditions may weaken at some time in the future. The Company sells its products primarily in North America and is most keenly impacted by fluctuations in market conditions in this region. However, it also sells products to customers in more than 60 countries. Deteriorating economic conditions in Europe or Asia could negatively impact revenue and operating results.

### **Additional Financing**

Even though the Company has been profitable since 2015, it 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 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 favorable 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**

The research and development activities of the Company may be funded by its customers through engineering services provided in addition to the Company’s investment in research and development activities. 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. The Company is highly dependent on a strategic partner and some customers to subsidize development of new products. There can be no assurance that its strategic partners or customers will continue to support the Company's product development initiatives.

### **Dependence on Suppliers**

There are a limited number of suppliers, or in some cases, only one supplier, for some of the components that our contract manufacturers use in the Company's products, and any disruption or delay in supply could adversely impact its financial performance. Because its suppliers have other customers, they may not have sufficient capacity to meet all of the Company's needs during periods of excess demand. The recent global economic contraction has caused many of Intrinsic's suppliers to reduce their manufacturing capacity. As the global economy improves, suppliers are experiencing and may continue to experience supply constraints until they expand capacity to meet increased levels of demand. These supply constraints may adversely affect the availability and lead times of components for Intrinsic's products. Increased lead times mean that we may have to order materials earlier and in larger quantities. Further, supply constraints will likely result in increased expediting and overall procurement costs as the Company attempts to meet customer demand requirements. In addition, these supply constraints may affect the Company's ability, as well as our contract manufacturers' ability, to meet customer demand and thus result in missed sales opportunities and a loss of market share, negatively impacting revenue and the Company's overall operating results.

### **History of Losses**

Even though the Company has been profitable since 2015, it has a history of operating losses, and there can be no assurance that the Company will be profitable in the future. As at September 30, 2018, the Company had an accumulated deficit of approximately \$105.7 million. The Company's prospects must be considered in the context of the implementation stage of its current strategy, the risks and uncertainties it faces, and the inability of the Company to accurately predict its results of sales and marketing initiatives. There can be no assurances that implementation of the Company's strategy will result in the Company sustaining profitable operations.

### **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 and services 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.

The process of developing new products and solutions and enhancing existing products and solutions is complex, lengthy, costly and uncertain. If the Company fails to anticipate our customers' changing needs or emerging technological trends, its market share and results of operations could materially suffer. The Company must make long-term investments, develop or obtain appropriate know-how and intellectual property and commit significant resources before knowing whether its predictions will accurately reflect customer demand for its products and solutions. If the Company is unable to adapt its products to new technological industry standards, to extend its core technologies into new applications or new platforms or to anticipate or respond to technological changes, the market's acceptance of its products and solutions could decline and the Company's results could suffer. Additionally, any delay in the development, production, marketing or offering of a new product or application or an enhancement to an existing product or application could result in customer attrition or impede Intrinsic's ability to attract new customers, causing a decline in the Company's revenue or earnings and weakening its competitive position.

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

The Company's strategic alliances with operating system vendors, semiconductor manufacturers, and independent software vendors 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 June 30, 2018, approximately 15% and 25% of the Company's consolidated revenue was attributable to its largest customer. Revenue derived from current and future large customers may 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 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. A design win, which is defined as tangible evidence of a client beginning the process of developing their product utilizing one of the Company's standard or custom computing modules, often takes between six and twelve months

Not all new design wins lead to production, and even if they do, the timing of such production may not occur as the Company or its customers had estimated, or the volumes derived from such projects may not be as significant as the Company had estimated, which could have a substantial negative impact on its anticipated revenue and profitability. The Company's product revenue expectations are highly dependent upon achieving successful design wins, moving those design wins to volume production and the market success of our customers' end products. The time between when the Company achieves a design win with a customer and when it begins shipping to that customer at production levels generally has been shortened with the Company's standards-based model. However, with many new design wins, customers require Intrinsyc to assist them with the design process. In addition, customers may require significant time to integrate Intrinsyc's products into their applications. The design process and the integration of customer specific applications can take six to eighteen months, and in some circumstances can take as long as 36 months. After that, there is an additional time lag from the start of production to achieving peak revenue. Not all design wins lead to production, and the Company may incur costs for designs that do not enter production. Even if a design win does lead to production, the volumes derived from such projects may be less than the Company had originally estimated. Customer projects related to design wins are sometimes canceled or delayed or can perform below original expectations, which can adversely impact anticipated revenue and profitability. In particular, the volumes and time to production associated with new design wins depend on the adoption rate of new technologies among end users. Program delays or cancellations could be more frequent during times of meaningful economic downturn.

## **Customer Credit Risk**

Historically, the Company has offered very limited credit terms to our customers. As its customer base expands, as orders increase in size, the Company expects to offer increased credit terms and flexible payment programs to its customers. Doing so may subject the Company to increased credit risk, higher accounts receivable with longer days outstanding, and increases in charges or reserves, which could have a material adverse effect on its business, results of operations and financial condition.

## **Visibility of Future Customer Demand**

The Company generally does not obtain firm, long-term purchase commitments from its customers, and frequently does not have visibility as to their future demand. Customers also cancel requirements, change engineering or other service requirements, change production quantities, delay production or revise their forecasts for future orders for a number of reasons that are beyond the Company's control. Cancellations, reductions or delays by a significant customer, or by a group of customers, could seriously harm the Company's operating results and negatively affect its working capital levels. Such cancellations, reductions or delays have occurred from time to time and may continue to occur.

## **Selling Price Erosion**

Average selling prices of computing products typically are higher at the time of introduction of new products, which utilize the latest technology and tend to decrease over time as such products become commoditized and are ultimately replaced by even newer generation products. The Company cannot predict the timing or amount of any decline in the average selling prices of its products that it may experience in the future. In some instances, its agreements with distributors limit the ability to reduce prices unless it can make such price reductions available to them, or price protect their inventory. If the Company is unable to decrease per unit manufacturing costs faster than the rate at which average selling prices continue to decline, its business, financial condition and results of operations will be harmed.

## **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 be able to grow or maintain current revenue to succeed. The Company faces competition in the design of embedded computing solutions from a number of sources globally, including its own customers, many of whom have the ability to design embedded computing solutions by utilizing their own internal resources. Intrinsyc could also lose market share if customers who currently outsource to it elect to in-source all or a portion of the design process in the future. The markets in which the Company operates are fragmented, with a few large, international companies competing both against each other and a large number of small and medium-sized companies that focus on a more select group of products and customers. Some of the current and potential competitors have a number of significant advantages over Intrinsyc, including:

- a longer operating history;
- greater name recognition and marketing power;
- preferred vendor status with our existing and potential customers;
- significantly greater financial, technical, personnel, sales and marketing and other resources, which allow them to respond more quickly to new or changing opportunities, technologies and customer requirements;
- broader product and services offerings to provide more complete solutions; and
- lower cost structures.

Consolidation among Intrinsyc's competitors could also result in the formation of larger competitors with greater market share and greater financial and technological resources than Intrinsyc and further increase competition in the markets it serves. Some of the Company's products are built upon processor technology acquired from Qualcomm Technologies, Inc. This technology is becoming more broadly available to Intrinsyc's competitors and there are an increasing number of competitive products being introduced to the market.



## **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.

## **Foreign Exchange Risk**

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. The Company attempts to mitigate this risk by denominating many of its payment obligations in U.S. dollars. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations of the Company.

## **Insufficient, Excess or Obsolete Inventory**

As a result of the Company's strategy to provide greater choice and customization of our products to its customers, it is required to maintain a high level of inventory of components. If the Company fails to maintain sufficient inventory, it may not be able to meet demand for its products on a timely basis, and sales may suffer. If the Company overestimates customer demand, the Company could experience excess inventory of its products and be unable to sell those products at a reasonable price, or at all. As a result, the Company may need to record higher inventory reserves. In addition, from time to time the Company assumes greater inventory risk in connection with the purchase or manufacture of more specialized components in connection with higher volume sales opportunities. The Company expects that it will experience write-downs from time to time in the future related to existing and future commitments. If the Company is later able to sell inventory with respect to which it has taken a reserve at a profit, it may increase the quarterly variances in operating results. Historically, the Company has written off obsolete inventory. Excess or obsolete inventory levels for these or other reasons could result in unexpected expenses or increases in reserves against potential future charges which would adversely affect the Company's business and financial results.

## **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 orders from its hardware customers. 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 Company may in the future experience lower profit margins as a result of an increased focus on a hardware-based business model to the extent that revenue from the sales of machine to machine and embedded computing modules may account for a greater percentage of the Company's revenues in future quarters. 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 is highly dependent on a limited number of key personnel to maintain customer and strategic relationships. Loss of key personnel could have an adverse effect on these relationships and negatively impact the Company's financial performance. 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.

### **Investment in Customer**

The Company acknowledges that there is uncertainty regarding the valuation of the equity investment in Stream TV due to the uncertainty inherent to the fact that Stream TV is a pre-commercial entity in an emerging technology sector.

### **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.

### **Management of Growth**

The Company'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 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. Substantial growth in the Company's hardware initiatives may require the Company to raise additional capital through the issuance of additional shares or securing financing. There can be no assurance that the Company would be able to secure additional funding through these activities.

## **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 IFRS.

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 in accordance with *Internal Control – Integrated Framework 2013*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). 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 during the three months ended September 30, 2018.

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 National 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, 2018, the Company’s disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.

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

I, Tracy Rees, Chief Executive Officer of Intrinsic Technologies Corporation certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of Intrinsic Technologies Corporation (the “issuer”) for the interim period ended September 30, 2018.

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, with respect to 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, financial performance 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 officer(s) 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 end of the period covered by the interim filings

- 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 interim 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 officer(s) 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, 2018 and ended on September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: November 14, 2018

“Tracy Rees”  
Tracy Rees  
Chief Executive Officer

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

I, George Reznik, Chief Financial Officer of Intrinsic Technologies Corporation certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of Intrinsic Technologies Corporation (the “issuer”) for the interim period ended September 30, 2018.

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, with respect to 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, financial performance 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 officer(s) 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 end of the period covered by the interim filings

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 interim 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 officer(s) 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, 2018 and ended on September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

Date: November 14, 2018

“George Reznik”  
George Reznik  
Chief Financial Officer