



INVENTRONICS LIMITED

2017 THIRD QUARTER FINANCIAL REPORT

UNAUDITED FINANCIAL STATEMENTS

For the periods ended September 30, 2017 and 2016

INVENTRONICS LIMITED

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

<i>As at</i> <i>(in thousands)</i>	September 30 2017 Unaudited	December 31 2016 Audited
ASSETS		
Current		
Trade and other receivables <i>[Note 5]</i>	\$ 547	\$ 480
Inventories <i>[Note 6]</i>	600	532
Other current assets	46	22
	1,193	1,034
Non-current		
Property, plant and equipment <i>[Note 7]</i>	2,204	2,234
Total Assets	\$ 3,397	\$ 3,268
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness <i>[Note 8]</i>	\$ 186	\$ 224
Trade and other payables <i>[Note 9]</i>	540	471
Current portion of long-term debt <i>[Note 10]</i>	41	36
	767	731
Non-current liabilities		
Long-term debt <i>[Note 10]</i>	2,175	2,208
Total Liabilities	2,942	2,939
Shareholders' equity		
Share capital <i>[Note 11]</i>	2,276	2,276
Contributed surplus	182	182
Accumulated deficit	(2,003)	(2,129)
Total Shareholders' Equity	455	329
Total Liabilities and Shareholders' Equity	\$ 3,397	\$ 3,268

See accompanying notes

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF COMPREHENSIVE INCOME
Unaudited

<i>For the periods ended September 30</i> <i>(in thousands, except per share amounts)</i>	Three months		Nine months	
	2017	2016	2017	2016
Revenue	\$ 1,224	\$ 981	\$ 3,345	\$ 2,821
Cost of sales <i>[Note 6,7]</i>	981	868	2,653	2,556
Gross profit	243	113	692	265
Selling and administration expense	136	104	444	372
Interest expense	39	43	122	130
Net income (loss)	\$ 68	\$ (34)	\$ 126	\$ (237)
Basic and diluted earnings (loss) per share <i>[Note 12]</i>	1.5¢	(0.8)¢	2.9¢	(5.4)¢

See accompanying notes

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS
Unaudited

<i>For the periods ended September 30</i> <i>(in thousands)</i>	Three months		Nine months	
	2017	2016	2017	2016
OPERATING ACTIVITIES				
Net income (loss)	\$ 68	\$ (34)	\$ 126	\$ (237)
Add:				
Interest on long-term debt	34	38	106	114
Depreciation and amortization <i>[Note 7]</i>	20	81	61	244
Other items not involving cash	-	-	1	1
	122	85	294	122
Changes in non-cash working capital balances <i>[Note 13]</i>	181	(40)	(91)	(30)
Cash provided (used) by operating activities	303	45	203	92
FINANCING ACTIVITIES				
Repayment of long-term debt <i>[Note 10]</i>	(10)	(9)	(28)	(25)
Interest on long-term debt <i>[Note 10]</i>	(34)	(38)	(106)	(114)
Increase (Decrease) in bank indebtedness	(250)	9	(38)	62
Cash provided (used) by financing activities	(294)	(38)	(172)	(77)
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(9)	(7)	(31)	(15)
Cash provided (used) by investing activities	(9)	(7)	(31)	(15)
Increase (Decrease) in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of year	-	-	-	-
Cash and cash equivalents, end of the year	\$ -	\$ -	\$ -	\$ -

See accompanying notes

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN EQUITY
Unaudited

<i>(in thousands)</i>	Share capital	Contributed surplus	Accumulated Deficit	Total Shareholders' equity
Balance, December 31, 2015	\$ 2,276	\$ 182	\$ (1,846)	\$ 612
Net loss for the nine months ended September 30, 2016	-	-	(237)	(237)
Balance, September 30, 2016	\$ 2,276	\$ 182	\$ (2,083)	\$ 375
<i>(in thousands)</i>				
Balance, December 31, 2016	\$ 2,276	\$ 182	\$ (2,129)	\$ 329
Net earnings for the nine months ended September 30, 2017	-	-	126	126
Balance, September 30, 2017	\$ 2,276	\$ 182	\$ (2,003)	\$ 455

See accompanying notes

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended September 30, 2017 and 2016

Unaudited

1. DESCRIPTION OF BUSINESS

Inventronics Limited ("Corporation"), a corporation publicly traded on the TSX Venture Exchange under the symbol IVX is an individual entity incorporated in Alberta, Canada that is not part of any group of other entities. The Corporation, with its operations located in Brandon, Manitoba, designs and manufactures custom protective enclosures and related products for the telecommunications, electric transmission, cable, oil & gas and other industries in North America. The operations of the Corporation have historically been subject to seasonal fluctuations showing a close correlation with the North American construction industry. Typically, the pattern has been an elevated order volume beginning in the Corporation's first quarter and continuing through much of the second quarter, a slowdown through the first part of the third quarter as summer vacations take effect, with a second wave of elevated activity in the latter part of the third quarter usually extending into the mid-fourth quarter.

2. DATE OF AUTHORIZATION FOR ISSUE

The Corporation's financial statements were authorized for issue on November 24, 2017 by the Corporation's Board of Directors.

3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements of the Corporation have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") *International Accounting Standard ("IAS") 34 Interim Financial Reporting* using accounting policies and methods applied in the preparation of the Corporation's audited annual financial statements for the year ended December 31, 2016. As such, these interim financial statements do not include all of the disclosures with respect to the requirements under IFRS for annual financial statements and thus should be read in conjunction with the Corporation's 2016 audited annual financial statements. The accounting principles applied are on the basis that the Corporation is a going concern, which assumes that the Corporation will continue operations into the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Management routinely plans future activities including forecasting cash flows using detailed projections that are based in part on historical experience as well as anticipated revenue and profit streams. If any working capital shortages are projected, management ensures that adequate lending facilities are in place to address them. It is management's opinion and judgement that the Corporation will continue to have adequate resources to operate over the next twelve months based on the Corporation's cash flow projections. All amounts in these financial statements are reported in Canadian dollars unless specifically stated to the contrary.

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENT

The Corporation's financial instruments consist of cash and cash equivalents, trade and other receivables, bank indebtedness, trade and other payables and long-term debt. The carrying values of these assets and liabilities are considered to approximate fair value due to the short-term maturity of these items or, in the case of long-term debt, due to the market interest rate attached to the long-term debt. Cash and cash equivalents and bank indebtedness are disclosed at fair value under Level 1 of the fair value hierarchy. Trade and other receivables, trade and other payables, and long-term debt are disclosed at fair value under Level 2.

5. TRADE AND OTHER RECEIVABLES

<i>As at</i> <i>(in thousands)</i>	September 30 2017	December 31 2016
Trade receivables	\$ 547	\$ 480

At September 30, 2017, based on management's review, a provision for doubtful accounts was deemed unnecessary. The Corporation did not incur any credit losses for the nine and twelve months periods ended September 30, 2017 and December 31, 2016, respectively.

6. INVENTORIES

<i>As at</i> <i>(in thousands)</i>	September 30 2017	December 31 2016
Raw materials	\$ 525	\$ 472
Work-in-progress	35	32
Finished goods	40	28
	\$ 600	\$ 532

For the three and nine month periods ended September 30, 2017, the Corporation expensed inventory costs of \$779,000 (2016 - \$678,000) and \$2,071,000 (2016 - \$1,956,000) through cost of sales. At September 30, 2017, the provision for net realizable value was \$51,000 (December 31, 2016 - \$51,000).

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended September 30, 2017 and 2016

Unaudited

7. PROPERTY, PLANT AND EQUIPMENT

Review of useful lives and residual values - Change in accounting estimate

IFRS IAS 16 Property, Plant and Equipment recommends that the useful life and residual value of assets be reviewed if expectations differ from previous estimates. During the third quarter of 2017, the Corporation's management completed a review and revised its assumptions as to the level of business the Corporation is likely to experience over the foreseeable future and the manner in which it is likely to utilize its property, plant and equipment based on these assumptions. As the Corporation has lowered its revenue growth expectations to be flat-to-modest, the Corporation is assuming that much of the Corporation's equipment will be useful to the Corporation over a greater period than previously estimated. Further, it is the Corporation's management's view that prior residual values were, in hindsight, conservative as they were established during a time of economic recession and depressed secondary equipment markets. In accordance with IAS 16 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Corporation accounted for the results of its review as a change in accounting estimate to be applied prospectively and applied this change as of the beginning of the current fiscal year. The following table provides a comparison of prior and new estimated remaining useful life ("RUL") and residual value and the estimated impact on depreciation and amortization expense on an annualized basis:

<i>(in thousands of dollars, unless otherwise specified)</i>	NBV ¹ at January 1, 2017	RUL (in years) at January 1, 2017		Residual Value		Estimated Annual Depreciation Expense ³		
		Prior	Amended	Prior	Amended	Prior	Amended	Change
Land	6	n/a		-	6	n/a	n/a	n/a
Buildings	749	no change		-	757	35	-	(35)
Equipment								
Press brakes	503	0-9	0-10	56	216	53	29	(24)
Punch presses	406	3	10	45	130	116	28	(88)
Paint systems	167	1-12	10-15	104	143	10	2	(8)
All other assets	393	<i>footnote 2</i>	<i>footnote 2</i>	67	252	95	19	(76)
Furniture & fixtures	6	no change		-	5	4	-	(4)
Computer equipment	4	no change		-	-	2	2	-
	2,234			272	1,509	315	80	(235)

Footnotes:

1. Net book value ("NBV")
2. As category represents many assets, specific RUL is not identifiable
3. Based on 2017 forecast

8. BANK CREDIT FACILITIES

The Corporation has a demand operating credit facility with its bank utilized by way of a line of credit which provides an authorized limit of \$850,000 with an interest rate of prime plus 2.50%. Effective August 25, 2016, at the request of management, in agreement with the Corporation's bank, the authorized limit was reduced from \$1.25 million and the interest rate was reduced from prime plus 2.75%. The credit facility is margined on the Corporation's accounts receivable and inventory balances and secured by a general security agreement constituting a first ranking security interest in all personal property of the Corporation and Section 427 of the *Bank Act (Canada)* security over inventory. The Corporation is in compliance with all covenants and obligations pertaining to its demand operating credit facility.

9. TRADE AND OTHER PAYABLES

As at <i>(in thousands)</i>	September 30 2017	December 31 2016
Trade payables	\$ 383	\$ 315
Other payables and accrued expenses	157	156
	\$ 540	\$ 471

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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Unaudited

10. LONG-TERM DEBT

<i>As at</i> <i>(in thousands)</i>	September 30 2017	December 31 2016
Agreement commenced June 21, 2012; fixed rate mortgage bearing interest of 6.6%; maturing in 2042; repayable monthly in blended principal and interest installments of \$15,409; secured by a first mortgage on the Corporation's manufacturing facility and land in Brandon, Manitoba, a general security agreement providing a security interest in all of the Corporation's present and after acquired personal property but accepting a subordinate position to all existing registered charges.	\$ -	\$ 2,270
The same as above except: bearing interest of 6.0%; repayable monthly in blended principal and interest installments of \$14,571.	2,242	-
Unamortized transaction costs	(26)	(26)
	2,216	2,244
Less: current portion	41	36
Long-term portion of long-term debt	\$ 2,175	\$ 2,208

The lending agreement stipulated that, in 2017, after a five-year period from the initial loan date, the loan was subject to a market-based interest rate adjustment. Effective April 10, 2017, the Corporation selected a 2-year fixed interest rate term bearing an interest rate of 6.0% with a blended monthly payment of \$14,571. Although containing general performance conditions, the loan agreement does not contain any financial covenants that must be periodically tested. The Corporation is in compliance with all covenants and obligations pertaining to this agreement.

11. SHARE CAPITAL

An unlimited number of common shares, with no par value, are authorized for issue. The authorized, issued and outstanding common shares of the Corporation, which are fully paid, are as follows:

<i>For the</i> <i>(dollar amounts in thousands)</i>	Nine months ended September 30, 2017		Twelve months ended December 31, 2016	
	Number of shares	Amount	Number of shares	Amount
Outstanding, beginning of period	4,405,145	\$ 2,276	4,405,145	\$ 2,276
Outstanding, end of period	4,405,145	\$ 2,276	4,405,145	\$ 2,276

A corporation, wholly-owned by a group consisting of the members of the Corporation's senior management team ("Management group"), holds a controlling interest in the Corporation amounting to 3,020,000 common shares, or 68.6% of the outstanding common shares of the Corporation.

Stock option plan

The Corporation maintains a stock option plan for the benefit of employees and directors. At September 30, 2017, there were 400,000 stock options granted, outstanding and exercisable (December 31, 2016 – 400,000).

12. EARNING PER SHARE

<i>For the periods ended September 30</i> <i>(in thousands, except per share amounts)</i>	Three months		Nine months	
	2017	2016	2017	2016
Net income (loss)	\$ 68	\$ (34)	\$ 126	\$ (237)
Weighted average common shares outstanding	4,405	4,405	4,405	4,405
Basic and diluted earnings (loss) per share	1.5¢	(0.8)¢	2.9¢	(5.4)¢

For the three and nine month periods ended September 30, 2017, the calculation of diluted earnings per share does not differ materially from basic earnings per share. For the three and nine month periods ended September 30, 2016, the effect of options is not included in the calculation of diluted earnings per share as inclusion would have an anti-dilutive effect.

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13. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the periods ended September 30</i> <i>(in thousands)</i>	Three months		Nine months	
	2017	2016	2017	2016
Changes in non-cash working capital balances:				
Trade and other receivables	\$ 43	\$ (23)	\$ (67)	\$ (146)
Inventories	78	34	(68)	59
Other current assets	20	20	(24)	(3)
Trade and other payables	40	(71)	68	60
	\$ 181	\$ (40)	\$ (91)	\$ (30)

14. RELATED PARTY TRANSACTIONS

The members of Inventronics' senior management team, as a group, wholly own the corporation that holds approximately 69% of the outstanding common shares of the Corporation. Three of the four members of the senior management team are members of Inventronics' Board of Directors ("Board") and receive no compensation for their service as Board members. The Corporation pays salary to its senior management team for their employment services and incurs related employee benefit costs. For the three and nine month periods ended September 30, 2017, the Corporation expensed \$166,000 (2016 - \$116,000) and \$460,000 (2016 - \$358,000), respectively, related to salary and employee benefits for its senior management team, including statutorily mandated contributions to the Government of Canada's Employment Insurance and Canada Pension Plan programs.