



INVENTRONICS LIMITED

2018 THIRD QUARTER FINANCIAL REPORT

UNAUDITED FINANCIAL STATEMENTS

For the periods ended September 30, 2018 and 2017

INVENTRONICS LIMITED

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

<i>As at</i> <i>(in thousands)</i>	September 30 2018 Unaudited	December 31 2017 Audited
ASSETS		
Current		
Trade and other receivables <i>[Note 6]</i>	\$ 820	\$ 444
Inventories <i>[Note 7]</i>	688	541
Other current assets	30	18
	1,538	1,003
Non-current		
Property, plant and equipment <i>[Note 8]</i>	2,194	2,225
Total Assets	\$ 3,732	\$ 3,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness <i>[Note 9]</i>	\$ 396	\$ 135
Trade and other payables <i>[Note 10]</i>	735	477
Current portion of long-term debt <i>[Note 11]</i>	95	42
	1,226	654
Non-current liabilities		
Long-term debt <i>[Note 11]</i>	2,269	2,164
Total Liabilities	3,495	2,818
Shareholders' equity		
Share capital <i>[Note 12]</i>	2,276	2,276
Contributed surplus	182	182
Accumulated deficit	(2,221)	(2,048)
Total Shareholders' Equity	237	410
Total Liabilities and Shareholders' Equity	\$ 3,732	\$ 3,228

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	
	2018	2017	2018	2017
Revenue	\$ 1,282	\$ 1,224	\$ 2,908	\$ 3,345
Cost of sales <i>[Note 7,8]</i>	1,012	981	2,437	2,653
Gross profit	270	243	471	692
Selling and administration expense	75	136	338	444
Interest expense	41	39	118	122
Net income before restructuring cost	\$ 154	\$ 68	\$ 15	\$ 126
Restructuring cost <i>[Note 16]</i>	188	-	188	-
Net income (loss)	\$ (34)	\$ 68	\$ (173)	\$ 126
Basic and diluted earnings (loss) per share <i>[Note 13]</i>	(0.8)¢	1.5¢	(3.9)¢	2.9¢

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	
	2018	2017	2018	2017
OPERATING ACTIVITIES				
Net income (loss)	\$ (34)	\$ 68	\$ (173)	\$ 126
Add:				
Interest on long-term debt	33	34	100	106
Depreciation and amortization <i>[Note 8]</i>	21	20	62	61
Restructuring cost	188	-	188	1
	208	122	177	294
Changes in non-cash working capital balances <i>[Note 14]</i>	(153)	181	(277)	(91)
Cash provided (used) by operating activities	55	303	(100)	203
FINANCING ACTIVITIES				
Repayment of long-term debt <i>[Note 11]</i>	-	(10)	(21)	(28)
Interest on long-term debt <i>[Note 11]</i>	(33)	(34)	(100)	(106)
Payment of long-term restructuring obligation	(10)	-	(10)	-
Increase (decrease) in bank indebtedness	(1)	(250)	261	(38)
Cash provided (used) by financing activities	(44)	(294)	130	(172)
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(11)	(9)	(30)	(31)
Cash provided (used) by investing activities	(11)	(9)	(30)	(31)
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, 2016	\$ 2,276	\$ 182	\$ (2,129)	\$ 329
Net income for the nine months ended September 30, 2017	-	-	126	126
Balance, September 30, 2017	\$ 2,276	\$ 182	\$ (2,003)	\$ 455
Balance, December 31, 2017	\$ 2,276	\$ 182	\$ (2,048)	\$ 410
Net loss for the nine months ended September 30, 2018	-	-	(173)	(173)
Balance, September 30, 2018	\$ 2,276	\$ 182	\$ (2,221)	\$ 237

See accompanying notes

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended September 30, 2018 and 2017

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 28, 2018 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, 2017. 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 2017 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. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2018, the Corporation adopted the following standards, interpretations and/or amendments thereto, of which had no material impact on the Corporation's financial statements: (i) *IFRS 9 Financial Instruments*, which establishes principles for the financial reporting of financial assets and financial liabilities; (ii) *IFRS 15 Revenue From Contracts With Customers*, establishes principles on how and when an entity recognizes revenue from transactions under contract with a customer, as well as appropriate disclosure; and *International Financial Reporting Interpretations Committee ("IFRIC") 22 Foreign Currency Transactions and Advance Consideration*, provides guidance on determining the appropriate date for identifying a foreign exchange rate to apply to a transaction within the scope of *IAS 21 The Effects of Changes in Foreign Exchange Rates* involving the payment or receipt of consideration in advance.

5. 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.

6. TRADE AND OTHER RECEIVABLES

<i>As at</i> <i>(in thousands)</i>	September 30 2018	December 31 2017
Trade receivables	\$ 820	\$ 444

At September 30, 2018, 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, 2018 and December 31, 2017, respectively.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended September 30, 2018 and 2017

Unaudited

7. INVENTORIES

<i>As at</i> <i>(in thousands)</i>	September 30 2018	December 31 2017
Raw materials	\$ 588	\$ 493
Work-in-progress	66	3
Finished goods	34	45
	\$ 688	\$ 541

For the three and nine month periods ended September 30, 2018, the Corporation expensed inventory costs of \$822,000 (2017 - \$779,000) and \$1,844,000 (2017 - \$ 2,071,000), respectively, through cost of sales. At September 30, 2018, the provision for net realizable value was \$51,000 (December 31, 2017 - \$51,000).

8. 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. In 2017, the Corporation 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, and adjusted depreciation accordingly. 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 2017.

9. BANK CREDIT FACILITIES

The Corporation has a demand operating credit facility with its bank in the form of an overdraft lending account which provides an authorized limit of \$850,000 with an interest rate of prime plus 2.50%. 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.

10. TRADE AND OTHER PAYABLES

<i>As at</i> <i>(in thousands)</i>	September 30 2018	December 31 2017
Trade payables	\$ 546	\$ 301
Other payables and accrued expenses	189	176
	\$ 735	\$ 477

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended September 30, 2018 and 2017
Unaudited

11. LONG-TERM DEBT

<i>As at</i> <i>(in thousands)</i>	September 30 2018	December 31 2017
Agreement commenced June 21, 2012; fixed rate mortgage bearing interest of 6.0%; maturing in 2042; repayable monthly in blended principal and interest installments of \$14,571; 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.	\$ 2,211	\$ 2,231
Unamortized transaction costs	(25)	(25)
	2,186	2,206
Restructuring obligation of \$187,500 commenced August 1, 2018; payable monthly over 36 months in equal payments of \$5,208; non interest bearing (See Note 16)	178	-
	2,364	2,206
Less: Current portion of mortgage	32	42
Current portion of restructuring obligation	63	-
	95	42
Long-term portion of long-term debt	\$ 2,269	\$ 2,164

Effective immediately after the Corporation's June 2018 regular payment, the Corporation accepted its lender's offer to postpone six months of loan principal payments without any transaction fees or change in interest rate which had the effect of reducing the current portion. 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.

12. 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, 2018		Twelve months ended December 31, 2017	
	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 executive management team, 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, 2018, there were 400,000 stock options granted, outstanding and exercisable (December 31, 2017 – 400,000).

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the periods ended September 30, 2018 and 2017

Unaudited

13. EARNING PER SHARE

<i>For the periods ended September 30</i> <i>(in thousands, except per share amounts)</i>	Three months		Nine months	
	2018	2017	2018	2017
Net income (loss)	\$ (34)	\$ 68	\$ (173)	\$ 126
Weighted average common shares outstanding	4,405	4,405	4,405	4,405
Basic and diluted earnings (loss) per share	(0.8)¢	1.5¢	(3.9)¢	2.9¢

For the three and nine month periods ended September 30, 2018, the effect of options is not included in the calculation of diluted earnings per share as inclusion would have an anti-dilutive effect. 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.

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the periods ended September 30</i> <i>(in thousands)</i>	Three months		Nine months	
	2018	2017	2018	2017
Changes in non-cash working capital balances:				
Trade and other receivables	\$ (313)	\$ 43	\$ (377)	\$ (67)
Inventories	(93)	78	(147)	(68)
Other current assets	2	20	(11)	(24)
Trade and other payables	251	40	258	68
	\$ (153)	\$ 181	\$ (277)	\$ (91)

15. RELATED PARTY TRANSACTIONS

The members of Inventronics' executive management team, as a group, wholly own the corporation that holds approximately 69% of the outstanding common shares of the Corporation. Each of the four members of the executive 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 executive management team for their employment services and incurs related employee benefit costs. For the three and nine months ended September 30, 2018, the Corporation expensed \$96,000 (2017 - \$166,000) and \$371,000 (2017 - \$460,000), respectively, related to salary and employee benefits for its executive management team, including statutorily mandated contributions to the Government of Canada's Employment Insurance and Canada Pension Plan programs.

The Corporation pays a fee of \$1,000 per month to the corporation that holds a controlling interest in the Corporation (see Note 12 *Share Capital*). For the three and nine month periods ended September 30, 2018, the Corporation expensed \$3,000 (2017 - \$3,000) and \$9,000 (2017 - \$9,000), respectively, for this fee.

See Note 16.

16. RESTRUCTURING COST

In order to reduce the overhead costs of the Corporation, as of August 1, 2018 the Corporation and the Chief Financial Officer reached an agreement whereby the work time and salary of the CFO was reduced. This was done by terminating the existing employment agreement of indefinite term and replacing it with an employment agreement with a 36 month term with a reduced salary, benefits and time commitment. Pursuant to the terminated contract, a payment of \$187,500 was required. The CFO and the Corporation agreed to settle that obligation by 36 equal monthly payments of \$5,208 with no interest.