



INVENTRONICS LIMITED

2016 ANNUAL FINANCIAL REPORT

AUDITED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

Management's Responsibility for Financial Reporting

The accompanying financial statements and related financial information are the responsibility of the Corporation's management and have been approved by the Board of Directors on the recommendation of the Audit Committee. The financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's judgement and best estimates. Financial information contained throughout this report is consistent with these financial statements.

The Corporation maintains a system of internal controls over financial reporting to provide reasonable assurance regarding the reliability of its financial information. This system includes the establishment of appropriate policies and procedures, the selection and training of qualified personnel, segregation of incompatible responsibilities and the maintenance of appropriate levels of authority delegation.

Our independent auditors, MNP LLP, Chartered Professional Accountants, provide an audit of the annual financial statements as reflected in the below Auditors' Report.

The Board of Directors discharges its duties related to the financial statements by reviewing and discussing financial information prepared by Management and through the activities of its Audit Committee. The Audit Committee meets with Management to assure that it is performing responsibly to maintain financial controls and systems and to review the financial statements of the Corporation. The Audit Committee also meets with the independent auditors prior to recommending the approval of the financial statements to the Board of Directors.



Dan J. Stearne, CPA, CA
President and Chief Executive Officer
April 27, 2017



W. Garth Wilson, CPA, CA
Chief Financial Officer
April 27, 2017

Independent Auditors' Report

To the Shareholders of Inventronics Limited:

We have audited the accompanying financial statements of Inventronics Limited, which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Inventronics Limited as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



April 27, 2017
Winnipeg, MB

MNP LLP
Chartered Professional Accountants

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
Audited

As at December 31
(in thousands)

	2016	2015
ASSETS		
Current		
Trade and other receivables [Note 6]	\$ 480	\$ 392
Income taxes recoverable [Note 14]	-	3
Inventories [Note 7]	532	548
Other current assets	22	32
	1,034	975
Non-current		
Property, plant and equipment [Note 8]	2,234	2,538
Total Assets	\$ 3,268	\$ 3,513
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness [Note 9]	\$ 224	\$ 285
Trade and other payables [Note 10]	471	339
Current portion of long-term debt [Note 11]	36	34
	731	658
Non-current liabilities		
Long-term debt [Note 11]	2,208	2,243
Total Liabilities	2,939	2,901
Shareholders' equity		
Share capital [Note 12]	2,276	2,276
Contributed surplus	182	182
Accumulated deficit	(2,129)	(1,846)
Total Shareholders' Equity	329	612
Total Liabilities and Shareholders' Equity	\$ 3,268	\$ 3,513

See accompanying notes

On behalf of the Board of Directors:



Dan J. Stearne, CPA, CA
Director



W. Garth Wilson, CPA, CA
Director

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF COMPREHENSIVE LOSS
Audited

For the years ended December 31
(in thousands, except per share amounts)

	2016	2015
Revenue	\$ 3,830	\$ 4,187
Cost of sales <i>[Note 7]</i>	3,452	3,946
Gross profit	378	241
Selling and administration expense	489	485
Interest expense	172	173
Net loss before income tax	(283)	(417)
Provision for income tax <i>[Note 14]</i>	-	3
Net loss	\$ (283)	\$ (414)
Basic and diluted loss per share <i>[Note 13]</i>	(6.4)¢	(9.4)¢

See accompanying notes

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS
Audited

For the years ended December 31
(in thousands)

	2016	2015
OPERATING ACTIVITIES		
Net loss	\$ (283)	\$ (414)
Add:		
Interest on long-term debt	151	153
Depreciation and amortization	324	326
Loss (Gain) on disposal of property, plant and equipment	-	2
Other items not involving cash	1	1
	193	68
Changes in non-cash working capital balances <i>[Note 15]</i>	73	(65)
Cash provided (used) by operating activities	266	3
FINANCING ACTIVITIES		
Repayment of long-term debt <i>[Note 11]</i>	(34)	(32)
Interest on long-term debt <i>[Note 11]</i>	(151)	(153)
Increase (Decrease) in bank indebtedness	(61)	230
Cash provided (used) by financing activities	(246)	45
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment <i>[Note 8]</i>	(20)	(48)
Cash provided (used) by investing activities	(20)	(48)
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
Audited

<i>(in thousands)</i>	Share capital	Contributed surplus	Accumulated deficit	Total Shareholders' equity
Balance, December 31, 2014	\$ 2,276	\$ 182	\$ (1,432)	\$ 1,026
Net loss for the year ended December 31, 2015	-	-	(414)	(414)
Balance, December 31, 2015	\$ 2,276	\$ 182	\$ (1,846)	\$ 612
<i>(in thousands)</i>				
Balance, December 31, 2015	\$ 2,276	\$ 182	\$ (1,846)	\$ 612
Net loss for the year ended December 31, 2016	-	-	(283)	(283)
Balance, December 31, 2016	\$ 2,276	\$ 182	\$ (2,129)	\$ 329

See accompanying notes

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

Audited

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 at 1420 Van Horne Avenue East, 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.

2. DATE OF AUTHORIZATION FOR ISSUE

The Corporation's financial statements were authorized for issue on April 27, 2017 by the Corporation's Board of Directors.

3. SIGNIFICANT ACCOUNTING POLICIES

These significant accounting policies are presented to assist the reader in evaluating the financial results and, together with the following notes to the financial statements, should be considered an integral part of the financial statements. These accounting policies have been applied consistently to all periods presented in these financial statements.

Basis of presentation

These annual financial statements of the Corporation have been prepared by management on a historical cost basis, unless specifically stated to the contrary, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee in effect for the fiscal year beginning January 1, 2016. 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.

Use of estimates and judgement - measurement uncertainty

A precise determination of many assets and liabilities is dependent upon future events. Therefore, the preparation of financial statements necessarily involve the use of judgement, estimates and approximations based on information available as of the date of the disclosure of assets, liabilities, revenues and expenses for the period reported. Accordingly, actual results could differ from those estimates. The specific areas in the Corporation's financial statements that contain the use of estimates and judgement are: (i) accounts receivable - see Note 16 Credit risk; (ii) inventories - see Note 3 Inventories; (iii) property, plant and equipment - see Note 3 Property, plant and equipment and impairment of long-lived assets; (iv) income taxes - see Note 3 Income taxes; and (v) going concern as noted above.

Cash and cash equivalents

Cash and cash equivalents comprise only of cash balances.

Inventories

Finished goods and work-in-progress are stated at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of purchased parts, labour and applicable production overheads. Raw materials is made up of primarily purchased parts but also includes fabricated parts. Raw materials are stated at the lower of purchase or manufacturing cost, determined on a 'first-in, first-out' basis, and net realizable value. The Corporation typically maintains only modest quantities of finished goods, work-in-progress and fabricated raw materials inventory, most of which is based on existing customer orders and/or forecasts. The determination of net realizable value for finished goods and work-in-process inventory is based on existing customer orders and/or recent transactions. The determination of net realizable value for purchased raw materials requires that management make judgements, estimates and assumptions on the ability to utilize these inventories in future production. A provision is made for inventory that may become unusable in future production and/or obsolete and the provision is reviewed regularly.

Property, plant and equipment and impairment of long-lived assets

Property, plant and equipment are recorded at historical cost, which includes acquisition and development costs and are carried at cost less accumulated depreciation and amortization. Carrying value is assessed for possible impairment of value whenever indicators of impairment exist. For the purposes of assessing impairment, the Corporation has a single cash-generating unit comprising the entirety of its property, plant and equipment as there is no smaller identifiable group of assets that generates cash inflows independently of any other assets or group of assets. If the carrying value of the Corporation's property, plant and equipment exceeds its estimated recoverable amount, an impairment loss is recognized to write the assets down to recoverable amount. Recoverable amount is determined using the higher of fair value less costs of disposal or value in use. The Corporation obtains periodic independent appraisals of its property, plant and equipment to estimate fair value less cost of disposal and updates these appraisal at such time when changing economic, technological and/or other conditions are likely to produce a materially different result. The appraisal of machinery and equipment is determined on a fair value less cost of disposal basis

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

Audited

and land and building are valued at market value which is defined as "the probable price at which a property would sell for allowing a reasonable time to find a purchaser".

The method of depreciation and amortization is based on management's judgement as to the most appropriate method to reflect the pattern of an asset's future economic benefit expected to be consumed by the Corporation based on Corporation-specific history and experience. Depreciation and amortization of cost is provided on a straight-line basis over the estimated useful life for each asset. Useful life is reviewed at least annually and, where a change is warranted, accounted for as a change in accounting estimate. The range of useful lives for each asset class is as follows:

Buildings	40 to 55 years
Machinery and equipment	5 to 26 years
Furniture and fixtures	10 to 20 years
Computer equipment	3 to 5 years

Revenue recognition

For manufactured goods, ownership and responsibility for completed goods is transferred to the customer upon shipment of the goods from the Corporation's manufacturing facility. Invoicing to the customer and revenue recognition occurs at the time of shipment. In certain circumstances, the Corporation may hold completed goods, on the customer's behalf within the Corporation's facilities, until such time as the customer requests delivery. Ownership and primary responsibility for these goods passes to the customer at the time of invoicing which occurs at the time completed goods are placed into storage at the Corporation's facility. Where the Corporation assumes responsibility for the payment of freight charges, revenue may include a freight charge to the customer offset by the associated carrier's charge to the Corporation. For design services, revenue is recognized on a progress basis based on design time incurred at predetermined rates.

Employee benefits

Employee benefits provided by the Corporation include salaries, wages, paid vacation leave, contributions toward a group registered retirement savings plan, contributions toward the premiums for disability, extended health care and dental coverage and statutorily mandated contributions to the Government of Canada's Employment Insurance and Canada Pension Plan programs. The Corporation also pays the premiums for critical illness coverage for eligible key management personnel. These benefits are considered "short-term employee benefits" and are expensed as incurred with the exception of paid vacation leave, which is accrued proportionally as employment services are provided. In addition, the Corporation maintains a stock option plan for the benefit of employees and directors that is accounted for as described below. The Corporation does not have any post-employment or other long-term employee benefits. For the year ended December 31, 2016, the Corporation expensed employee benefits totalling \$1,775,000 (2015 - \$1,896,000).

Stock option plan

The Corporation uses the fair value based method to account for the plan. Under this method, compensation cost is charged directly to earnings. Direct awards of stock granted to employees are recorded at fair value on the date of grant and the associated expense is amortized over the vesting period with a corresponding credit to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital. The fair value of stock options granted is estimated using the Black-Scholes option pricing model, taking into account amounts that are believed to approximate the volatility of the trading price of the Corporation's shares, the expected lives of the awards of stock-based compensation, the fair value of the Corporation's stock, forfeiture rate and the risk-free interest rate, as determined at the grant date.

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income except to the extent it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

Basic earnings or loss per share is calculated by dividing the earnings or loss for a particular period by the weighted average number of shares outstanding during that period. Diluted earnings per share is calculated by adjusting earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Potential common shares which may be dilutive consist of stock options granted and outstanding. The calculation of diluted earnings per share assumes that the proceeds received upon the assumed exercise of all stock options outstanding in the year are used to repurchase the Corporation's shares at the average share price during the period.

Foreign currency translation

Monetary assets and liabilities of the Corporation denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet dates. Revenues and expenses are translated at approximate exchange rates prevailing at the time the transaction occurred. Exchange gains and losses are recognized in the period in which they arise.

Financial instruments - initial recognition and subsequent 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.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss ("FVTPL"), available for sale, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition. The Corporation currently does not classify any financial assets as available for sale or as derivatives designated as hedging instruments. The Corporation's financial assets include cash and cash equivalents and trade and other receivables. All financial assets are recognized initially at fair value.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss ("FVTPL")

FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes cash and cash equivalents. FVTPL are carried in the statements of financial position at fair value, with changes in fair value recognized in finance income or finance cost in the statements of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement at fair value which includes transaction costs, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statements of comprehensive income. Any losses arising from impairment are recognized in the statements of comprehensive income in interest, accretion and finance costs. The Corporation has classified trade and other receivables as loans and receivables.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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De-recognition

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when the rights to receive cash flows from the asset have expired; or, the Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default, or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with financial defaults.

For financial assets carried at amortized cost, the Corporation first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future expected credit that has not yet been incurred. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statements of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statements of comprehensive income. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to interest, accretion and finance costs in the statements of comprehensive income. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at FVTPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value. Other financial liabilities are recognized at fair value plus directly attributable transaction costs. The Corporation's financial liabilities include bank indebtedness, trade and other payables and long-term debt.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category could include derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives could also be classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statements of comprehensive income. The Corporation does not have any financial liabilities classified as FVTPL.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

Audited

Other financial liabilities

After initial recognition, interest-bearing other financial liabilities are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the statements of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs on the statements of comprehensive income. The Corporation has designated bank indebtedness, trade and other payables and long-term debt as other financial liabilities.

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Shareholders' equity

Common shares are presented in issued capital within shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from issued capital, net of any tax effects.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. The Corporation does not hold any such instruments as at December 31, 2016 (December 31, 2015 – Nil).

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

The Corporation has classified its financial instrument fair values based on the required three-level hierarchy:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

Cash and cash equivalents and bank indebtedness are disclosed at fair value under Level 1. Trade and other receivables, trade and other payables, and long-term debt are disclosed at fair value under Level 2. The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Transaction costs

Transaction costs for financial instruments, other than fair value through profit or loss, are capitalized in the period they are incurred. Transaction costs for loan facilities that have durations longer than one year are capitalized and amortized using the EIR method over the period that corresponds with the term of the loan facilities.

4. ADOPTION OF NEW ACCOUNTING STANDARDS

There were no new standards, interpretations and/or amendments adopted by the Corporation during the 2016 fiscal year.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing IFRS standards have been issued but are not yet effective, and have not been adopted early by the Corporation. Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's financial statements is provided below.

IFRS 9 Financial Instruments, issued in July 2014, addresses the classification and measurement of financial assets and also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. This new standard is effective for annual periods beginning on or after January 1, 2018 and is not expected to have a material impact on the Corporation's financial statements.

IFRS 15 Revenue From Contracts With Customers, issued in May 2014, specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. This standard is expected to be effective for annual periods beginning on or after January 1, 2018 and is not expected to have a material impact on the Corporation's financial statements.

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. This new standard is effective for annual periods beginning on or after January 1, 2019 and is not expected to have a material impact on the Corporation's financial statements.

IAS 7 Statement of Cash Flows - Disclosure Initiative (amendment to IAS 7), amendment issued in January 2016 to enhance disclosure of changes in liabilities arising from financing activities. This standard is expected to be effective for annual periods beginning on or after January 1, 2017 and is not expected to have a material impact on the Corporation's financial statements.

IAS 12 Income Taxes, amendment issued in January 2016 to clarify how to account for deferred tax assets related to debt instruments measured at fair value. This standard is expected to be effective for annual periods beginning on or after January 1, 2017 and is not expected to have a material impact on the Corporation's financial statements.

6. TRADE AND OTHER RECEIVABLES

<i>As at December 31</i> <i>(in thousands)</i>	2016	2015
Trade receivables	\$ 480	\$ 392

At December 31, 2016, based on management's review, a provision for doubtful accounts was deemed unnecessary. The Corporation did not incur any credit losses for the years ended December 31, 2016 and December 31, 2015, respectively.

7. INVENTORIES

<i>As at December 31</i> <i>(in thousands)</i>	2016	2015
Raw materials	\$ 472	\$ 467
Work-in-progress	32	-
Finished goods	28	81
	\$ 532	\$ 548

For the year ended December 31, 2016, the Corporation expensed inventory costs of \$2,666,000 (2015 - \$3,071,000) through cost of sales. At December 31, 2016, the provision for net realizable value was \$51,000 (2015 - \$51,000).

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

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8. PROPERTY, PLANT AND EQUIPMENT

<i>As at December 31</i> <i>(in thousands)</i>	2016		2015	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 6	\$ -	\$ 6	\$ -
Buildings	1,939	1,190	1,931	1,155
Machinery and equipment	10,106	8,637	10,094	8,358
Furniture and fixtures	174	168	174	162
Computer equipment	967	963	967	959
	<u>\$ 13,192</u>	<u>\$ 10,958</u>	<u>\$ 13,172</u>	<u>\$ 10,634</u>
Net book value	\$ 2,234		\$ 2,538	

Review for impairment of long-lived assets

At December 31, 2016, the carrying amount of the Corporation's property, plant and equipment exceeded the Corporation's market capitalization and, accordingly, the Corporation tested its property, plant and equipment assets for impairment. At December 31, 2016, based on management's judgement, it was probable that fair value less costs of disposal exceeded value in use and therefore, the Corporation used fair value less costs of disposal to test for impairment. Based on management's analysis, which included reference to independent appraisals of the Corporation's land, buildings and machinery and equipment, total recoverable value exceeds the carrying value of the Corporation's property, plant and equipment. Therefore, no impairment exists in the Corporation's property, plant and equipment.

Reconciliation of carrying amount

<i>For the year ended</i> <i>December 31, 2016</i>	Opening Carrying Amount	Additions	Disposals	Depreciation, included in Cost of sales	Closing Carrying Amount
<i>(in thousands)</i>					
Land	\$ 6	\$ -	\$ -	\$ -	\$ 6
Buildings	776	8	-	(35)	749
Machinery and equipment	1,736	12	-	(279)	1,469
Furniture and fixtures	11	-	-	(5)	6
Computer equipment	9	-	-	(5)	4
	<u>\$ 2,538</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ (324)</u>	<u>\$ 2,234</u>

<i>For the year ended</i> <i>December 31, 2015</i>	Opening Carrying Amount	Additions	Disposals	Depreciation, included in Cost of sales	Closing Carrying Amount
<i>(in thousands)</i>					
Land	\$ 6	\$ -	\$ -	\$ -	\$ 6
Buildings	798	12	-	(34)	776
Machinery and equipment	1,986	33	(2)	(281)	1,736
Furniture and fixtures	17	-	-	(6)	11
Computer equipment	11	3	-	(5)	9
	<u>\$ 2,818</u>	<u>\$ 48</u>	<u>\$ (2)</u>	<u>\$ (326)</u>	<u>\$ 2,538</u>

9. 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.

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10. TRADE AND OTHER PAYABLES

<i>As at December 31</i> <i>(in thousands)</i>	2016	2015
Trade payables	\$ 315	\$ 224
Other payables and accrued expenses	156	115
	<u>\$ 471</u>	<u>\$ 339</u>

11. LONG-TERM DEBT

<i>As at December 31</i> <i>(in thousands)</i>	2016	2015
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	\$ 2,304
Unamortized transaction costs	(26)	(27)
	<u>2,244</u>	<u>2,277</u>
Less: current portion	36	34
Long-term portion of long-term debt	<u>\$ 2,208</u>	<u>\$ 2,243</u>

The lending agreement stipulates 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.

Scheduled principal repayments of long-term debt for each of the next five years ending December 31 and thereafter are as follows:

<i>(in thousands)</i>	
2017	36
2018	39
2019	41
2020	44
2021	47
Thereafter	2,063
	<u>\$ 2,270</u>

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 years ended December 31</i> <i>(dollar amounts in thousands)</i>	2016		2015	
	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	<u>4,405,145</u>	<u>\$ 2,276</u>	<u>4,405,145</u>	<u>\$ 2,276</u>

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.

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The following table summarizes the issued and outstanding common shares of the Corporation along with stock options convertible into common shares:

<i>As at December 31</i>	2016		2015	
	Number of shares	Weighted average number of shares	Number of shares	Weighted average number of shares
Issued and outstanding common shares	4,405,145	4,405,145	4,405,145	4,405,145
Stock options outstanding ⁽¹⁾	400,000	114,286	400,000	133,334
Diluted shares outstanding	4,805,145	4,519,431	4,805,145	4,538,479

(1) For the purposes of calculating the diluted weighted average number of shares outstanding, only those options which are considered "in the money" (strike price below the Corporation's annual average common share price) are considered.

Stock option plan

The Corporation maintains a stock option plan for the benefit of employees and directors. Under the plan, the Corporation may grant options, up to an authorized "rolling" maximum equal to ten percent of the outstanding common shares, to its employees and directors for the purchase of common shares. The exercise price of each stock option is equal to the last closing market price of the Corporation's common shares on the date of grant or the minimum exercise price permitted by the TSX Venture Exchange and the maximum period during which an option may be exercised is 10 years. The plan provides for vesting on the basis of one-third immediately and the remainder at a rate of one-third on each of the following two grant date anniversaries with certain exercise restrictions related to the market trading price of the shares at the time of exercise. As at December 31, 2016, there were 400,000 stock options granted and outstanding (2015 - 400,000) representing 100,000 stock options granted to each of the four members of the Management group on October 24, 2012 in respect of the Management group's service and continuing commitment to the Corporation.

A summary of the changes in the Corporation's outstanding stock options is as follows:

<i>For the years ended December 31</i>	2016		2015	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding, beginning of year	400,000	\$ 0.10	400,000	\$ 0.10
Outstanding, end of year	400,000	\$ 0.10	400,000	\$ 0.10

The fair value of stock options granted during 2012 was \$15,560 as determined using a Black-Scholes option-pricing model which employed a risk-free interest rate of 1.25%, option life of 10 years, expected future volatility of 1.494 and no dividends or forfeiture rate were assumed. The resulting fair values of the stock options granted were recognized as compensation costs over the vesting period. During the year, the Corporation recognized no expense (2015 - \$0) related to stock options. As at December 31, 2016, there were 400,000 options exercisable (2015 - 400,000).

13. LOSS PER SHARE

<i>For the years ended December 31</i> <i>(in thousands, except per share amounts)</i>	2016	2015
Net loss	\$ (283)	\$ (414)
Weighted average common shares outstanding	4,405	4,405
Basic and diluted loss per share	(6.4)¢	(9.4)¢

For the years ended December 31, 2016 and December 31, 2015, 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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14. INCOME TAXES

The provision for income taxes differs from the amounts that would be obtained by applying the expected combined federal and provincial statutory income tax rate of 27.0% (2015 – 27.0%) as follows:

As at December 31 <i>(in thousands, except percentage amounts)</i>	2016	2015
Net loss before income taxes	\$ (283)	\$ (417)
Combined federal and provincial income tax rate	27.0%	27.0%
Expected income tax recovery	\$ (76)	\$ (113)
Change in deferred tax asset not recognized	69	114
Manufacturing and processing refundable tax credit	(1)	(3)
Other items	8	(1)
Provision for income taxes	\$ -	\$ (3)

Deferred tax liabilities and deferred tax assets arise from temporary differences, which are differences between the carrying amounts and tax bases of assets and liabilities, and unused tax losses. The components of the Corporation's net deferred tax asset, no portion of which has been recognized in these financial statements, are as follows:

As at December 31 <i>(in thousands)</i>	2016	2015
Deferred tax assets:		
Inventory allowance not deducted for tax purposes	\$ 14	\$ 14
Property, plant and equipment	969	893
SR&ED expenditures	32	32
SR&ED investment tax credit	41	41
Unused non-capital losses	142	142
	\$ 1,198	\$ 1,122
Deferred tax liabilities:		
Unamortized transaction costs	(7)	-
SR&ED investment tax credit	(11)	11
	\$ 1,180	\$ 1,111
Deferred tax asset not recognized	(1,180)	(1,111)
Net deferred tax asset (liability)	\$ -	\$ -

As of December 31, 2016, the Corporation had non-expiring Scientific Research & Experimental Development ("SR&ED") deductible cost pools of approximately \$119,000 (2015 - \$119,000) and federal and provincial SR&ED Investment Tax Credits of \$96,000 (2015 - \$96,000) which expire in 2025.

As of December 31, 2016, the Corporation had Canadian non-capital losses of \$526,000 (2015 - \$526,000) scheduled to expire as follows:

<i>(in thousands)</i>	
2026	\$ 268
2028	91
2034	50
2035	117
	\$ 526

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15. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the years ended December 31</i> <i>(in thousands)</i>	2016	2015
Changes in non-cash working capital balances:		
Trade and other receivables	\$ (88)	\$ (10)
Income taxes recoverable	3	(2)
Inventories	16	40
Other current assets	10	(7)
Trade and other payables	132	(86)
	<u>\$ 73</u>	<u>\$ (65)</u>

16. FINANCIAL RISK MANAGEMENT AND POLICIES

Interest rate risk

The Corporation is exposed to interest rate risk on its floating rate line of credit balances (see Note 9 Bank Credit Facilities) to the extent that its interest expense on this lending instrument will vary with changes to the lender's prime rate. The Corporation maintains a fixed rate on its long term debt (see Note 11 Long-term Debt) and its interest cost is fixed over the first five years of the loan.

Credit risk

The Corporation is exposed to credit risk with respect to its trade accounts receivable to the extent that customers may not be able to pay accounts as they come due. Management applies judgment as to the Corporation's ability to collect outstanding receivables and, if necessary, provides an allowance for a portion of accounts receivable when collection becomes doubtful. However, the majority of receivables are with large provincial, national and multi-national customers transacted under contractual arrangements. Further, the Corporation follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Corporation reviews its trade receivables regularly for potential credit losses and there were no credit losses during the years ended December 31, 2016 and 2015. As at December 31, 2016, the largest amount of outstanding trade receivables related to one customer represented 39% of total trade receivables (2015 - 29%). The Corporation had assessed that there was no unusual exposure associated with the collection of these receivables. The balance of accounts receivable was widely distributed among the remainder of the Corporation's customer base. At December 31, 2016, \$3,800 (2015 - \$9,000) of the Corporation's trade accounts receivable were over 60 days and none (2015 - none) were greater than 90 days.

Liquidity risk

Liquidity risk is the risk that the Corporation will have difficulty meeting its financial obligations as they come due. The Corporation is able to meet its financial obligations by generating cash flow from operations and through the use of its line of credit facility (see Note 9 Bank Credit Facilities). All financial liabilities of the Corporation are due within twelve months of December 31, 2016 with the exception of the portion of the Corporation's long-term debt scheduled to be repaid subsequent to December 31, 2017 (see Note 11 Long-term Debt).

Foreign currency risk

Generally, the Corporation conducts a relatively small amount of transactions denominated in US dollars with the result that foreign exchange risk, or the risk that the amount of payment of US denominated payables or proceeds on US denominated receivables is different from that originally transacted, is insignificant. The Corporation did not engage in any hedging activities during the years ended December 31, 2016 and 2015 other than a natural hedge that occurs by carrying US dollar denominated cash, receivable and payable balances simultaneously. The Corporation's balances of accounts subject to foreign exchange rate fluctuations are as follows:

<i>As at December 31</i> <i>(in thousands of Canadian dollars)</i>	2016	2015
Cash	15	13
Trade and other receivables	23	55
Trade and other payables	9	3

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17. SEGMENTED INFORMATION

The Corporation operates within one segment comprising the design and manufacture of custom enclosures and related products for the telecommunications, electric transmission, cable and other industries in North America.

18. 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. Each 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 year ended December 31, 2016, the Corporation expensed \$483,000 (2015 - \$499,000) related to salary and employee benefits for its senior management team, including stock option expense and statutorily mandated contributions to the Government of Canada's Employment Insurance and Canada Pension Plan programs. The compensation plan for the senior management team, which in aggregate cannot exceed \$1 million, includes a flexible component that links a portion of senior management's compensation to the financial performance of the Corporation. During the year ended December 31, 2016, there was no flexible amount paid (2015 - \$0). Excluding the Corporation's CEO, the employment agreements of the senior management team provide a right to be paid a severance amount, in the event of termination of employment by the Corporation for any reason other than just cause, equal to one and one-half times the aggregate compensation of the preceding twelve months.

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 year ended December 31, 2016, the Corporation expensed \$12,000 (2015 - \$12,000) for this fee.

19. CAPITAL MANAGEMENT

The Corporation's capital base is comprised of share capital, contributed surplus and accumulated deficit. The Corporation's focus is on increasing earnings and improving its balance sheet. The Corporation has historically retained all earnings for reinvestment into the operations of the Corporation.

Of the two covenants that are part of the lending agreement with the lender that provides the Corporation's line-of-credit facility, one covenant involves shareholders equity in the calculation. The Corporation is in compliance with this covenant.