



INVENTRONICS LIMITED

2018 ANNUAL FINANCIAL REPORT

AUDITED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

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 22, 2019

Independent Auditor's Report

To the Shareholders of Inventronics Limited:

Opinion

We have audited the financial statements of Inventronics Limited (the "Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of comprehensive income, cash flows and changes in equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kenneth H. Kustra.

Winnipeg, MB
April 22, 2019

MNP LLP
Chartered Professional Accountants

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION
Audited

As at December 31
(in thousands)

	2018	2017
ASSETS		
Current		
Trade and other receivables [Note 6]	\$ 895	\$ 444
Inventories [Note 7]	546	541
Other current assets	19	18
	1,460	1,003
Non-current		
Property, plant and equipment [Note 8]	2,177	2,225
Total Assets	\$ 3,637	\$ 3,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness [Note 9]	\$ 121	\$ 135
Trade and other payables [Note 10]	742	477
Current portion of restructuring obligation [Note 11]	63	-
Current portion of long-term debt [Note 12]	43	42
	969	654
Non-current liabilities		
Restructuring obligation [Note 11]	99	-
Long-term debt [Note 12]	2,143	2,164
Total Liabilities	3,211	2,818
Shareholders' equity		
Share capital [Note 13]	2,276	2,276
Contributed surplus	182	182
Accumulated deficit	(2,032)	(2,048)
Total Shareholders' Equity	426	410
Total Liabilities and Shareholders' Equity	\$ 3,637	\$ 3,228

See accompanying notes

On behalf of the Board of Directors:



Dan J. Stearne, CPA, CA
Director



Robert Brookwell
Director

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF COMPREHENSIVE INCOME
Audited

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

	2018	2017
Revenue	\$ 4,616	\$ 4,480
Cost of sales <i>[Note 7,8]</i>	3,808	3,626
Gross profit	808	854
Selling and administration expense <i>[Note 19]</i>	447	614
Interest expense	157	159
Earnings, before restructuring costs	204	81
Restructuring cost <i>[Note 11]</i>	188	-
Net income	16	81
Basic and diluted earnings per share <i>[Note 14]</i>	0.4¢	1.8¢

See accompanying notes

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF CASH FLOWS
Audited

For the years ended December 31
(in thousands)

	2018	2017
OPERATING ACTIVITIES		
Net income	\$ 16	\$ 81
Add:		
Interest on long-term debt	133	140
Depreciation and amortization <i>[Note 8]</i>	83	81
Restructuring cost <i>[Note 11]</i>	188	-
Amortization of transaction costs	1	1
	421	303
Changes in non-cash working capital balances <i>[Note 16]</i>	(192)	36
Cash provided (used) by operating activities	229	339
FINANCING ACTIVITIES		
Repayment of long-term debt <i>[Note 12]</i>	(21)	(38)
Interest on long-term debt <i>[Note 12]</i>	(133)	(140)
Payment of long-term restructuring obligation <i>[Note 11]</i>	(26)	-
Increase (Decrease) in bank indebtedness	(14)	(89)
Cash provided (used) by financing activities	(194)	(267)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment <i>[Note 8]</i>	(35)	(72)
Cash provided (used) by investing activities	(35)	(72)
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, 2016	\$ 2,276	\$ 182	\$ (2,129)	\$ 329
Net earnings for the year ended December 31, 2017	-	-	81	81
Balance, December 31, 2017	\$ 2,276	\$ 182	\$ (2,048)	\$ 410
Balance, December 31, 2017	\$ 2,276	\$ 182	\$ (2,048)	\$ 410
Net earnings for the year ended December 31, 2018	-	-	16	16
Balance, December 31, 2018	\$ 2,276	\$ 182	\$ (2,032)	\$ 426

See accompanying notes

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

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 in Brandon, Manitoba, designs and manufactures custom protective enclosures and related products for the telecommunications, cable, electric transmission, 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 22, 2019 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, 2018. 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. 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 17 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*; and, (iv) income taxes - see *Note 3 Income taxes*.

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 appraisals 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 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".

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

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

Projects in progress are not depreciated until available for use.

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 as this is the point in time in which the Corporation has satisfied its performance obligations and has an enforceable right to payment.

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 as this is point in time the Corporation has satisfied its performance obligations.

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, 2018, the Corporation expensed employee benefits totalling \$1,841 (2017- \$1,970).

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.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

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 statement of financial position 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, restructuring obligation, 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

The Corporation recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of trade and other receivables.

Reclassification

The Corporation reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment of financial assets

The Corporation recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Corporation applies the simplified approach for trade and other receivables. Using the simplified approach, the Corporation records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

The Corporation assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, or requests to restructure payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Corporation continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the statement of financial position for financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Corporation has no reasonable expectations of recovering all or any portion thereof.

Financial liabilities

Initial recognition and measurement

The Corporation recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Corporation measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

Derecognition of financial liabilities

The Corporation derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

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.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

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, 2018 (December 31, 2017 – 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.

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 effective interest rate method over the period that corresponds with the term of the loan facilities.

4. ADOPTION OF NEW ACCOUNTING STANDARDS

IFRS 9 Financial Instruments

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Corporation adopted IFRS 9 as issued in July 2014. The requirements of IFRS 9 are substantially different from those of IAS 39 Financial instruments: recognition and measurement. The new standard fundamentally alters the classification and measurement of financial assets subsequent to initial recognition, including impairment and incorporates a new hedge accounting model.

The key changes to the Corporation's accounting policies resulting from adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 requires financial assets be classified into one of three subsequent measurement categories: amortized cost, fair value through other comprehensive income, or fair value through profit or loss. Classification is based on the business model under which a financial asset is managed and the nature of its contractual cash flows. IFRS 9 eliminates the following IAS 39 classification categories: available-for-sale, held-to-maturity, and loans and receivables.

The classification and measurement of financial liabilities is largely retained from IAS 39. However, under IAS 39, all fair value changes of liabilities designated under the fair value option were recognized in profit or loss. Under IFRS 9, the amount of change in fair value attributable to the Corporation's own credit risk is generally required to be presented in other comprehensive income.

Impairment of financial assets

IFRS 9 replaces the methodology under IAS 39 of recognizing impairment losses when incurred with a forward-looking expected credit loss model which requires a more timely recognition of losses expected to occur over the contractual life of the financial asset. IFRS 9 uses a single model for recognizing impairment losses on financial assets. This model also applies to certain loan commitments, financial guarantee contracts, trade receivables and contract assets. Application of the IFRS 9 model results in earlier recognition of impairment losses than under IAS 39. Equity investments are no longer assessed for impairment as all equity investments are measured at fair value.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

Transition

In accordance with the transitional provisions provided in IFRS 9, the Corporation has applied the changes in accounting policies resulting from the adoption of IFRS 9 retrospectively but has elected not to restate comparative figures. All comparative information presented and disclosed for the prior year reflects the requirements of IAS 39. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized directly in retained earnings and reserves as at January 1, 2018. There was no financial impact on the transition to IFRS 9. Additional transitional provisions applied are described below.

Classification and measurement

For the purposes of determining the classification of financial assets, the business model test has been applied on the basis of facts and circumstances existing at the date of initial application with the resulting classification applied retrospectively.

Impairment

The credit risk at the date that a financial asset was initially recognized has been determined on the basis of reasonable and supportable information available without undue cost or effort. This has been compared to the credit risk at the date of initial application for the purpose of determining whether there has been a significant increase in credit risk.

For the purposes of this assessment, the Corporation has assumed that for low credit risk financial assets, credit risk has not increased significantly since initial recognition.

Initial application of IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following tables present the measurement categories and carrying amounts under IAS 39 as at December 31, 2017 and the new measurement categories and carrying amounts under IFRS 9 for the Corporation's financial assets and financial liabilities as at January 1, 2018.

<i>In thousands</i>	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount	IFRS 9 carrying amount
Financial assets				
Trade and other receivables	Loans and other receivables	Amortized cost	444	444
Financial liabilities				
Bank indebtedness	Amortized cost	Amortized cost	135	135
Trade and other payables	Amortized cost	Amortized cost	477	477
Long term debt	Amortized cost	Amortized cost	2,206	2,206
Total financial liabilities			2,818	2,818

IFRS 15 Revenue from contracts with customers

Effective January 1, 2018 (hereafter referred to as the "initial date of application"), the Corporation adopted IFRS 15 Revenue from contracts with customers as issued by the IASB in May 2014, with clarifying amendments issued in April 2016. The standard specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue – barter transactions involving advertising services.

Transition

The Corporation applied the changes in accounting policies resulting from the adoption of IFRS 15 retrospectively to each prior reporting period presented.

The application of the standard has not resulted in a significant change in the Corporation's accounting policy for revenue recognition.

Initial application of IFRS 15

The impact of adopting IFRS 15 resulted in no adjustments to the Corporation's financial statements for the year ending December 31, 2018 and December 31, 2017.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

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 16 Leases, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Corporation does not expect this standard to have a material impact on its financial statements.

6. TRADE AND OTHER RECEIVABLES

As at December 31
(in thousands)

	2018	2017
Trade receivables	\$ 895	\$ 444

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

7. INVENTORIES

As at December 31
(in thousands)

	2018	2017
Raw materials	\$ 516	\$ 493
Work-in-progress	-	3
Finished goods	30	45
	\$ 546	\$ 541

For the year ended December 31, 2018, the Corporation expensed inventory costs of \$2,986 (December 31, 2017 - \$2,831) through cost of sales. At December 31, 2018, the provision for net realizable value was \$51 (December 31, 2017 - \$51).

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

8. PROPERTY, PLANT AND EQUIPMENT

<i>As at December 31</i> <i>(in thousands)</i>	2018		2017	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 6	\$ -	\$ 6	\$ -
Buildings	1,947	1,189	1,946	1,189
Machinery and equipment	10,108	8,727	10,093	8,647
Furniture and fixtures	166	160	166	160
Computer equipment	869	847	849	844
Projects in progress	4	-	5	-
	\$ 13,100	\$ 10,923	\$ 13,065	\$ 10,840
Net book value	\$ 2,177		\$ 2,225	

Review for impairment of long-lived assets

At December 31, 2018, 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, 2018, 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, 2018</i>	Opening Carrying Amount	Disposals-Cost	Disposals-Accum Deprec	Additions	Depreciation, included in Cost of sales	Closing Carrying Amount
<i>(in thousands)</i>						
Land	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ 6
Buildings	757	1	-	-	-	758
Machinery and equipment	1,445	-	-	15	(79)	1,381
Furniture and fixtures	6	-	-	-	-	6
Computer equipment	6	-	-	20	(4)	22
Projects in progress	5	(1)	-	-	-	4
	\$ 2,225	\$ -	\$ -	\$ 35	\$ (83)	\$ 2,177

<i>For the year ended</i> <i>December 31, 2017</i>	Opening Carrying Amount	Disposals-Cost	Disposals-Accum Deprec	Additions	Depreciation, included in Cost of sales	Closing Carrying Amount
<i>(in thousands)</i>						
Land	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ 6
Buildings	749	(1)	1	8	-	757
Machinery and equipment	1,469	(69)	69	55	(79)	1,445
Furniture and fixtures	6	(8)	8	-	-	6
Computer equipment	4	(121)	121	4	(2)	6
Projects in progress	-	-	-	5	-	5
	\$ 2,234	\$ (199)	\$ 199	\$ 72	\$ (81)	\$ 2,225

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 with an interest rate of prime plus 2.50% (2017 – 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.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

10. TRADE AND OTHER PAYABLES

<i>As at December 31</i> <i>(in thousands)</i>	2018	2017
Trade payables and other accrued expenses	\$ 584	\$ 339
Payroll accruals	126	113
Government remittances payable	32	25
	<u>\$ 742</u>	<u>\$ 477</u>

11. RESTRUCTURING OBLIGATION

In 2018, the Corporation incurred a severance obligation in the amount of \$188 pursuant to an employment contract as part of a restructuring initiative. The Corporation entered into a non-interest bearing long-term payment agreement requiring monthly payments of \$5 until July 1, 2021. The remaining payments over the next three years are as follows:

<i>(in thousands)</i>	
2019	63
2020	63
2021	36
	<u>\$ 162</u>

12. LONG-TERM DEBT

<i>As at December 31</i> <i>(in thousands)</i>	2018	2017
Fixed rate mortgage bearing interest of 6.0%; maturing in 2042; repayable monthly in blended principal and interest installments of \$15; 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.	\$ 2,210	\$ 2,231
Unamortized transaction costs	(24)	(25)
	<u>2,186</u>	<u>2,206</u>
Less:		
Current portion of mortgage	43	42
Long-term portion of long-term debt	<u>\$ 2,143</u>	<u>\$ 2,164</u>

The mortgage 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 \$15. 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>	
2019	43
2020	46
2021	49
2022	52
2023	55
Thereafter	1,965
	<u>\$ 2,210</u>

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

13. 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>	2018		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 senior 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.

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>	2018		2017	
	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	114,286
Diluted shares outstanding	4,805,145	4,519,431	4,805,145	4,519,431

(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, 2018, there were 400,000 stock options granted, outstanding and exercisable (2017 – 400,000).

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

<i>For the years ended December 31</i>	2018		2017	
	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 2018, the Corporation recognized no expense (2017 - \$0) related to stock options.

14. EARNING PER SHARE

<i>For the years ended December 31</i> <i>(in thousands, except per share amounts)</i>	2018	2017
Net income	\$ 16	\$ 81
Weighted average common shares outstanding	4,405	4,405
Basic and diluted earnings (loss) per share	0.4¢	1.8¢

For the year ended December 31, 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 year ended December 31, 2017, the calculation of diluted earnings per share does not differ materially from basic earnings per share.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

15. 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% (2017 – 27.0%) as follows:

As at December 31

(in thousands, except percentage amounts)

	2018	2017
Net income before income taxes	\$ 16	\$ 81
Combined federal and provincial income tax rate	27.0%	27.0%
Expected income tax provision	\$ 4	\$ 22
Change in deferred tax asset not recognized	(5)	(55)
Manufacturing and processing refundable tax credit	-	(5)
Other items	1	38
Provision for income taxes	\$ -	\$ -

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

(in thousands)

	2018	2017
Deferred tax assets:		
Inventory allowance not deducted for tax purposes	\$ 14	\$ 14
Property, plant and equipment	432	696
Restructuring obligation	35	-
SR&ED investment tax credit	41	41
Unused non-capital losses	616	392
	\$ 1,138	\$ 1,143
Deferred tax liabilities:		
Unamortized transaction costs	(7)	(7)
SR&ED investment tax credit	(11)	(11)
	\$1,120	\$ 1,180
Deferred tax asset not recognized	(1,120)	(1,180)
Net deferred tax asset (liability)	\$ -	\$ -

As of December 31, 2018, the Corporation had Canadian non-capital losses of \$2,279 (2017 - \$1,452) scheduled to expire as follows:

<i>(in thousands)</i>	
2026	\$ 268
2028	91
2034	50
2035	117
2037	925
2038	828
	\$ 2,279

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

16. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31
(in thousands)

	2018	2017
Changes in non-cash working capital balances:		
Trade and other receivables	\$ (451)	\$ 36
Inventories	(5)	(9)
Other current assets	(1)	3
Trade and other payables	265	6
	<u>\$ 192</u>	<u>\$ 36</u>

17. 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 interest rate term.

Credit risk

Credit risk is the risk of financial loss to the Company because a counterparty to a financial instrument fails to discharge its contractual obligations. 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, 2018 and 2017. As at December 31, 2018, the largest amount of outstanding trade receivables related to three customers (2017 – one customer) represented 75% of total trade receivables (2017 - 33%). 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, 2018, \$4 (2017 - \$20) of the Corporation's trade accounts receivable were over 60 days and of that, \$1 (2017 - 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, 2018 with the exception of the portion of the Corporation's long-term debt scheduled to be repaid subsequent to December 31, 2019 (see Note 12 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, 2018 and 2017 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:

As at December 31
(in thousands of Canadian dollars)

	2018	2017
Bank indebtedness	27	15
Trade and other receivables	9	36
Trade and other payables	14	28

18. 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.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

Audited

19. 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, 2018, the Corporation expensed \$505 (2017 - \$619) 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.

The Corporation pays a fee of \$1 per month to the corporation that holds a controlling interest in the Corporation (see *Note 12 Share Capital*). For the year ended December 31, 2018, the Corporation expensed \$12 (2017 - \$12) for this fee to selling and administration expense.

20. 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.

21. SUMMARY INFORMATION ABOUT FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables provide a reconciliation between line items in the Statement of Financial Position and the categories of financial instruments as at December 31, 2018.

<i>In thousands</i>	Amortized cost
Financial assets	
Trade and other receivables	895
Financial liabilities	
Bank indebtedness	121
Trade and other payables	742
Restructuring liability	162
Long-term debt	2,210
Total financial liabilities	4,334