



INVENTRONICS LIMITED

2019 ANNUAL FINANCIAL REPORT

AUDITED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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 Independent 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.

(signed) "*Dan J. Stearne*"

Dan J. Stearne, CPA, CA
President and Chief Executive Officer
April 7, 2020

(signed) "*Robert P. Brookwell*"

Robert P. Brookwell, CPA, CMA
Chief Financial Officer
April 7, 2020

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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 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 the information included in the Management Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

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

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, Manitoba
April 7, 2020

MNP LLP
Chartered Professional Accountants

INVENTRONICS LIMITED

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

Audited

As at December 31
(in thousands)

	2019	2018
ASSETS		
Current		
Cash	\$ 52	\$ -
Trade and other receivables [Note 6]	307	895
Inventories [Note 7]	772	546
Other current assets	16	19
	1,147	1,460
Non-current		
Property, plant and equipment [Note 8]	2,145	2,177
Total Assets	\$ 3,292	\$ 3,637
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness [Note 9]	\$ -	\$ 121
Trade and other payables [Note 10]	424	742
Current portion of restructuring obligation [Note 11]	63	63
Current portion of long-term debt [Note 12]	40	43
	527	969
Non-current liabilities		
Restructuring obligation [Note 11]	36	99
Long-term debt [Note 12]	2,108	2,143
Total Liabilities	2,671	3,211
Shareholders' equity		
Share capital [Note 13]	2,276	2,276
Contributed surplus	182	182
Accumulated deficit	(1,837)	(2,032)
Total Shareholders' Equity	621	426
Total Liabilities and Shareholders' Equity	\$ 3,292	\$ 3,637

See accompanying notes

On behalf of the Board of Directors:

(signed) "Dan J. Stearne"

Dan J. Stearne
Director

(signed) "Robert P. Brookwell"

Robert P. Brookwell
Director

INVENTRONICS LIMITED
FINANCIAL STATEMENTS
STATEMENT OF COMPREHENSIVE INCOME
Audited

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

	2019	2018
Revenue	\$ 5,656	\$ 4,616
Cost of sales <i>[Note 7,8]</i>	4,618	3,808
Gross profit	1,038	808
Selling and administration expense <i>[Note 19]</i>	676	447
Interest expense	167	157
Earnings, before restructuring costs	195	204
Restructuring cost <i>[Note 11]</i>	-	188
Net income	\$ 195	\$ 16
Basic and diluted earnings per share <i>[Note 14]</i>	4.4¢	0.4¢

See accompanying notes

INVENTRONICS LIMITED

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

Audited

For the years ended December 31
(in thousands)

	2019	2018
OPERATING ACTIVITIES		
Net income	\$ 195	\$ 16
Add:		
Interest on long-term debt	146	133
Depreciation and amortization <i>[Note 8]</i>	90	83
Restructuring cost <i>[Note 11]</i>	-	188
Amortization of transaction costs	1	1
	432	421
Changes in non-cash working capital balances <i>[Note 16]</i>	47	(192)
Cash provided (used) by operating activities	479	229
FINANCING ACTIVITIES		
Repayment of long-term debt <i>[Note 12]</i>	(39)	(21)
Interest on long-term debt <i>[Note 12]</i>	(146)	(133)
Payment of long-term restructuring obligation <i>[Note 11]</i>	(63)	(26)
Decrease in bank indebtedness	(121)	(14)
Cash provided (used) by financing activities	(369)	(194)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment <i>[Note 8]</i>	(58)	(35)
Cash provided (used) by investing activities	(58)	(35)
Increase in cash and cash equivalents	52	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of the year	\$ 52	\$ -

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, 2017	\$ 2,276	\$ 182	\$ (2,048)	\$ 410
Net income for the year ended December 31, 2018	-	-	16	16
Balance, December 31, 2018	\$ 2,276	\$ 182	\$ (2,032)	\$ 426
Balance, December 31, 2018	\$ 2,276	\$ 182	\$ (2,032)	\$ 426
Net income for the year ended December 31, 2019	-	-	195	195
Balance, December 31, 2019	\$ 2,276	\$ 182	\$ (1,837)	\$ 621

See accompanying notes

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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 7, 2020 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, 2019. 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".

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

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

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 10 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, 2019, the Corporation expensed employee benefits totalling \$2,261 (2018 – \$1,841).

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.

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

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

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, 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.

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

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

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 income for which transaction costs are immediately recorded in income.

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 income.

De-recognition 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 income 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.

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

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

any deduction for transaction costs. The Corporation does not hold any such instruments as at December 31, 2019 (2018 – 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 16 Leases

Effective January 1, 2019 (hereafter referred to as the "date of initial application"), the Corporation adopted IFRS 16 Leases as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in 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.

The adoption of the new standard did not have a material impact to the Corporation's financial statements, since the Corporation does not have any material leases.

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 any relevant pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement.

6. TRADE AND OTHER RECEIVABLES

As at December 31
(in thousands)

	2019	2018
Trade receivables	\$ 307	\$ 895

At December 31, 2019, 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, 2019 and December 31, 2018, respectively.

7. INVENTORIES

As at December 31
(in thousands)

	2019	2018
Raw materials	\$ 734	\$ 516
Work-in-progress	-	-
Finished goods	38	30
	<u>\$ 772</u>	<u>\$ 546</u>

For the year ended December 31, 2019, the Corporation expensed inventory costs of \$3,600 (2018 – \$2,986) through cost of sales. At December 31, 2019, the provision for net realizable value was \$71 (2018 – \$51).

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

8. PROPERTY, PLANT AND EQUIPMENT

As at December 31 <i>(in thousands)</i>	2019		2018	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	\$ 6	\$ -	\$ 6	\$ -
Buildings	1,947	1,189	1,947	1,189
Machinery and equipment	10,119	8,810	10,109	8,727
Furniture and fixtures	165	160	165	160
Computer equipment	922	855	869	847
Projects in progress	-	-	4	-
	\$ 13,159	\$ 11,014	\$ 13,100	\$ 10,923
Net book value	\$ 2,145		\$ 2,177	

Review for impairment of long-lived assets

At December 31, 2019 and 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, 2019 and 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

For the year ended December 31, 2019 <i>(in thousands)</i>	Opening Carrying Amount	Disposals - Cost	Disposals - Accum Depr'n	Additions/ Transfers	Depreciation, included in Cost of sales	Closing Carrying Amount
Land	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ 6
Buildings	758	-	-	-	-	758
Machinery and equipment	1,381	-	-	11	(83)	1,309
Furniture and fixtures	6	(1)	-	-	-	5
Computer equipment	22	-	-	52	(7)	67
Projects in progress	4	-	-	(4)	-	-
	\$ 2,177	\$ (1)	\$ -	\$ 59	\$ (90)	\$ 2,145

For the year ended December 31, 2018 <i>(in thousands)</i>	Opening Carrying Amount	Disposals - Cost	Disposals - Accum Depr'n	Additions/ Transfers	Depreciation, included in Cost of sales	Closing Carrying Amount
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

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

9. BANK CREDIT FACILITIES

The Corporation has a demand operating credit facility in the form of an overdraft lending account which provides an authorized limit of \$850 with an interest rate of prime plus 2.50% (2018 – prime plus 2.50%). At December 31, 2019, an amount of \$575 under this facility was available, of which none was drawn (December 31, 2018 - \$850 available and \$121 drawn). The credit facility is margined on the Corporation's accounts receivable and inventory balances and secured by a general security agreement over those assets. The Corporation is in compliance with all covenants and obligations pertaining to its demand operating credit facility.

10. TRADE AND OTHER PAYABLES

As at December 31

(in thousands)

	2019	2018
Trade payables and other accrued expenses	\$ 302	\$ 584
Payroll accruals	103	126
Government remittances payable	19	32
	\$ 424	\$ 742

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 two years are as follows:

(in thousands)

2020	63
2021	36
	\$ 99

12. LONG-TERM DEBT

As at December 31

(in thousands)

	2019	2018
Fixed rate mortgage bearing interest of 7.0%; maturing in 2042; repayable monthly in blended principal and interest installments of \$16; 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.	\$ 2,171	\$ 2,210
Unamortized transaction costs	(23)	(24)
	2,148	2,186
Less:		
Current portion of mortgage	40	43
Long-term portion of long-term debt	\$ 2,108	\$ 2,143

Effective April 10, 2019, the Corporation selected a 1-year fixed interest rate term bearing an interest rate of 7.0% with a blended monthly payment of \$16. Prior to April 10, 2019, the interest rate was 6.0% with a monthly blended principal and interest installment of \$15,000. 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 obligations pertaining to this agreement.

Scheduled principal repayments of long-term debt for each of the next five years ending December 31 and thereafter assuming a fixed interest rate of 7% are as follows:

(in thousands)

2020	40
2021	43
2022	46
2023	50
2024	53
Thereafter	1,939
	\$ 2,171

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

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:

For the years ended December 31 <i>(dollar amounts in thousands)</i>	2019		2018	
	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 primarily 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:

As at December 31	2019		2018	
	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	65,940	400,000	92,308
Diluted shares outstanding	4,805,145	4,471,085	4,805,145	4,497,453

(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, 2019, there were 400,000 stock options granted and outstanding (2018 – 400,000).

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

For the years ended December 31	2019		2018	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding, beginning of year	400,000	\$ 0.100	400,000	\$ 0.10
Cancelled in the year	(100,000)	\$ 0.100	-	-
Issued in the year	100,000	\$ 0.165	-	-
Outstanding, end of year	400,000	\$ 0.116	400,000	\$ 0.10

The fair value of stock options granted in 2019 was \$6 as determined using a Black-Scholes option-pricing model which employed a risk-free interest rate of 1.25%, option life of 5 years, expected future volatility of 40% and no dividends or forfeiture rate were assumed. The resulting fair values of the stock options granted will be recognized as compensation costs over the vesting period. During 2019, the Corporation recognized no expense (2018 – Nil) related to stock options.

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

14. EARNINGS PER SHARE

For the years ended December 31

(in thousands, except per share amounts)

	2019	2018
Net income	\$ 195	\$ 16
Weighted average common shares outstanding	4,405	4,405
Basic and diluted earnings per share	4.4¢	0.4¢

For the years ended December 31, 2019 and 2018, the calculation of diluted earnings per share does not differ materially from basic earnings per share.

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% (2018 – 27.0%) as follows:

As at December 31

(in thousands, except percentage amounts)

	2019	2018
Net income before income taxes	\$ 195	\$ 16
Combined federal and provincial income tax rate	27%	27%
Expected income tax provision	\$ 53	\$ 4
Change in deferred tax asset not recognized	(53)	(5)
Manufacturing and processing refundable tax credit	(1)	-
Other items	1	1
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)

	2019	2018
Deferred tax assets:		
Inventory allowance not deducted for tax purposes	\$ 19	\$ 14
Property, plant and equipment	283	432
Restructuring obligation	18	35
SR&ED investment tax credit	41	41
Unused non-capital losses	724	616
	\$ 1,085	\$ 1,138
Deferred tax liabilities:		
Unamortized transaction costs	(6)	(7)
SR&ED investment tax credit	(11)	(11)
	\$ 1,068	\$ 1,120
Deferred tax asset not recognized	(1,068)	(1,120)
Net deferred tax asset (liability)	\$ -	\$ -

As of December 31, 2019, the Corporation had Canadian non-capital losses of \$2,679 (2018 - \$2,279) scheduled to expire as follows:

(in thousands)	
2026	\$ 268
2028	91
2034	50
2035	117
2037	925
2038	828
2039	400
	\$ 2,679

INVENTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Audited

16. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended December 31

(in thousands)

	2019	2018
Changes in non-cash working capital balances:		
Trade and other receivables	\$ 588	\$ (451)
Inventories	(226)	(5)
Other current assets	3	(1)
Trade and other payables	(318)	265
	\$ 47	\$ (192)

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 12 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, 2019 and 2018. As at December 31, 2019, the largest amount of outstanding trade receivables related to five customers (2018 – three customers) represented 73% of total trade receivables (2018 - 75%). 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, 2019, \$10 (2018 - \$4) of the Corporation's trade accounts receivable were over 60 days and of that, \$Nil (2018 - \$1) 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, 2019 with the exception of the portion of the Corporation's long-term debt scheduled to be repaid subsequent to December 31, 2020 (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, 2019 and 2018 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)

	2019	2018
Bank indebtedness	-	27
Trade and other receivables	10	9
Trade and other payables	4	14

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, 2019 and 2018

Audited

19. RELATED PARTY TRANSACTIONS

Three members of Inventronics' senior management team, as a group, control the corporation that owns approximately 69% of the outstanding common shares of the Corporation. 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 fixed and variable compensation to its senior management team for their employment services. For the year ended December 31, 2019, the Corporation expensed \$727 (2018 - \$479) related to those compensation arrangements.

The Corporation pays a fee of \$1 per month to the corporation that holds a controlling interest in the Corporation (see *Note 13 Share Capital*). For the year ended December 31, 2019, the Corporation expensed \$12 (2018 - \$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 statement of financial position. 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. SUBSEQUENT EVENT

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation in future periods.