
Innovest Global, Inc.

Consolidated Financial Report
December 31, 2018

Consolidated Financial Statements

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Consolidated Balance Sheet

December 31, 2018 and 2017

| | 2018 | 2017 |
|--|----------------------|-------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 793,903 | \$ 3,833 |
| Accounts receivable: | | |
| Trade | 4,280,082 | 23,448 |
| Retentions | 528,622 | - |
| Vendor rebates | 680,110 | - |
| Inventory | 30,371 | 5,894 |
| Costs in excess of billings (Note 10) | 87,617 | - |
| Subscription receivable | 342,000 | 100,000 |
| Prepaid expenses and other current assets | 126,183 | - |
| Total current assets | 6,868,888 | 133,175 |
| Property and Equipment - Net (Note 6) | 369,606 | - |
| Goodwill (Note 7) | 4,587,695 | 82,381 |
| Intangible Assets - Net (Note 7) | 647,250 | - |
| Other Assets | | |
| Investment (Note 5) | 141,742 | - |
| Other noncurrent assets | 31,363 | - |
| Total other assets | 173,105 | - |
| Total assets | \$ 12,646,544 | \$ 215,556 |

Consolidated Balance Sheet (Continued)

December 31, 2018 and 2017

| | 2018 | 2017 |
|--|----------------------|-------------------|
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current Liabilities | | |
| Accounts payable | \$ 3,565,494 | \$ 61,847 |
| Bank line of credit (Note 8) | 348,640 | - |
| Notes payable (Note 9) | 138,584 | 41,600 |
| Billings in excess of cost and estimated earnings (Note 10) | 180,594 | - |
| Accrued and other current liabilities: | | |
| Accrued compensation | 105,418 | - |
| Customer rebates | 680,110 | - |
| Deferred compensation | 48,750 | - |
| Other accrued liabilities | 191,971 | 114,596 |
| Total current liabilities | 5,259,561 | 218,043 |
| Stock Guarantee Liability (Notes 4 and 16) | 6,919,000 | - |
| Share Issuance Liability (Note 4) | 750,000 | - |
| Commitments and Contingencies | - | - |
| Total liabilities | 12,928,561 | 218,043 |
| Stockholders' Equity (Deficit) | | |
| Common stock, par value \$0.001 per share: | | |
| Authorized shares: 500,000,000 in 2018 and 2017 | | |
| Issued and outstanding shares: 141,050,291 at December 31, 2018 and 62,338,524 at December 31, 2017 | 141,050 | 62,339 |
| Preferred stock, par value \$0.001 per share: | | |
| Authorized shares: 10,000,000 in 2018 and 2017 | | |
| Issued and outstanding shares: 1,250,000 at December 31, 2018 and 1,750,000 at December 31, 2017 | 1,250 | 1,750 |
| Stock subscriptions, common shares: 2,386,667 at December 31, 2018 and 16,193,183 at December 31, 2017 | 342,000 | 150,000 |
| Additional paid-in capital | 3,432,969 | 32,344 |
| Retained deficit | (4,199,286) | (248,920) |
| Total stockholders' equity (deficit) | (282,017) | (2,487) |
| Total liabilities and stockholders' equity (deficit) | <u>\$ 12,646,544</u> | <u>\$ 215,556</u> |

Consolidated Statement of Operations

Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|-----------------------|---------------------|
| Net Sales | \$ 7,173,518 | \$ 49,756 |
| Cost of Sales | 5,297,667 | 26,122 |
| Gross Profit | 1,875,851 | 23,634 |
| Operating Expenses | 4,018,102 | 143,825 |
| Operating Loss | (2,142,251) | (120,191) |
| Nonoperating Income (Expenses) | | |
| Interest income | 1,635 | - |
| Other income | 1,346 | 56 |
| Interest expense (Notes 8 and 9) | (25,696) | (4,150) |
| Fair value adjustment for stock guarantee liability (Note 16) | (2,230,000) | - |
| Bargain purchase gain (Note 4) | 444,600 | - |
| Total nonoperating income | (1,808,115) | (4,094) |
| Consolidated Net Loss | \$ (3,950,366) | \$ (124,285) |
| Net Loss Per Share - Basic and Diluted | \$ (0.03) | \$ 0.00 |
| Weighted-average Common Shares Outstanding - Basic and Diluted | 141,466,437 | 62,338,524 |

Consolidated Statement of Stockholders' Equity (Deficit)

Years Ended December 31, 2018 and 2017

| | Common Stock | Preferred Stock | Stoc Subscriptions | Additio Paid-in Capital | Accumulate Deficit | Total |
|---|-------------------|--------------------|-----------------------|----------------------------|-----------------------|---------------------|
| Balance - January 1, 2017 | \$ 62,339 | \$ 1,750 | \$ - | \$ 32,344 | \$ (124,635) | \$ (28,202) |
| Consolidated net loss | - | - | - | - | (124,285) | (124,285) |
| Stock subscriptions issued | - | - | 150,000 | - | - | 150,000 |
| Balance - December 31, 2017 | 62,339 | 1,750 | 150,000 | 32,344 | (248,920) | (2,487) |
| Consolidated net loss | - | - | - | - | (3,950,366) | (3,950,366) |
| Issuance of common shares | 46,153 | - | - | 2,651,108 | - | 2,697,261 |
| Conversion of preferred shares to common shares | 50,000 | (500) | - | (49,500) | - | - |
| Cancellation of common shares | (50,000) | - | - | 50,000 | - | - |
| Issuance of common shares for services | 16,365 | - | - | 615,210 | - | 631,575 |
| Stock subscription issued | - | - | 342,000 | - | - | 342,000 |
| Stock subscriptions collected | 16,193 | - | (150,000) | 133,807 | - | - |
| Balance - December 31, 2018 | \$ 141,050 | \$ 1,250 | \$ 342,000 | \$ 3,432,969 | \$ (4,199,286) | \$ (282,017) |

Consolidated Statement of Cash Flows

Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|-------------------|-----------------|
| Cash Flows from Operating Activities | | |
| Net loss | \$ (3,950,366) | \$ (124,285) |
| Adjustments to reconcile net loss to net cash and cash equivalents from operating activities: | | |
| Depreciation | 5,908 | - |
| Loss on disposal of property and equipment | 5,298 | - |
| Bad debt expense | 39,298 | - |
| Amortization | 45,750 | - |
| Impairment of goodwill | 25,169 | - |
| Stock compensation | 631,575 | - |
| Bargain purchase gain | (444,600) | - |
| Fair value adjustment for stock guarantee liability | 2,230,000 | - |
| Changes in operating assets and liabilities that (used) provided cash and cash equivalents: | | |
| Accounts receivable | (451,988) | 752 |
| Inventory | 529 | 3,282 |
| Costs and estimated earnings in excess of billings | (87,617) | - |
| Prepaid expenses and other assets | (124,347) | - |
| Accounts payable | (194,144) | (3,540) |
| Billings in excess of costs and estimated earnings | 156,614 | - |
| Accrued and other liabilities | 671,973 | 64,976 |
| Net cash used in operating activities | (1,440,948) | (58,815) |
| Cash Flows from Investing Activities | | |
| Acquisition of investment | (16,742) | - |
| Acquisition of business (cash received in excess of cash paid) | 258,314 | (750) |
| Net cash provided by (used in) investing activities | 241,572 | (750) |
| Cash Flows from Financing Activities | | |
| Proceeds from debt | - | 13,398 |
| Payments on debt | (45,803) | - |
| Stock issuance | 2,035,249 | 50,000 |
| Net cash provided by financing activities | 1,989,446 | 63,398 |
| Net Increase in Cash and Cash Equivalents | 790,070 | 3,833 |
| Cash and Cash Equivalents - Beginning of year | 3,833 | - |
| Cash and Cash Equivalents - End of year | \$ 793,903 | \$ 3,833 |
| Supplemental Cash Flow Information | | |
| Restricted common shares issued in connection with acquisitions (Note 4) | \$ 1,309,155 | \$ - |
| Unissued shares in connection with Authority National Supply acquisition (Note 14) | 750,000 | - |
| Restricted common shares issued for investment (Note 5) | 125,000 | - |
| Unpaid stock subscriptions | 342,000 | 100,000 |
| Furniture and fixtures acquired through obligation and issuance of restricted common shares | 52,333 | - |

December 31, 2018 and 2017

Note 1 - Nature of Business

Innovest Global, Inc. (the “Company” or IVST) was formed in 1999 as International Sports Marketing Group, Inc. In August 2016, after a series of transactions, the Company’s ownership, name, and business plan was changed to operate as a diversified holding company, or conglomerate.

The Company’s business plan includes the focus on acquisition of privately held businesses whose owners are willing to consider merging their businesses in order to establish a public trading market for their common stock and whose management teams are willing to operate the acquired businesses as divisions or subsidiaries of the Company.

The current business units operate within the following segments:

Construction and building materials - Two businesses currently operate in this segment. Midwest Curtain Walls, Inc. (Midwest Curtain Walls) designs and manufactures nonstructural window solutions to commercial building contractors. Authority National Supply, LLC (Authority National Supply) is currently acting as an agent leveraging the combined purchasing power of its customers in securing vendor pricing for construction related supplies. These businesses are located in Ohio, with customers in the midwestern part of the United States. Authority National Supply is currently progressing towards changing its business model to be a distributor and maintaining its own inventory.

Energy services - Energy services includes energy broker services for both residential and commercial businesses throughout Ohio from H.P. Technologies, Inc. (H.P. Technologies). This business receives commissions from energy providers based on the business secured and energy volumes used. Energy services also include the design and installation of energy-efficient lighting solutions from Shepherd Energy, LLC (Shepherd Energy).

Call center services - This segment provides inbound and outbound call center services to commercial and industrial clients primarily in Ohio, with anticipated expansion to other parts of the U.S. This business, Contact Source Solutions, LLC (Contact Source Solutions), is currently serving the medical supplies sector.

Other - The other business segment includes a safety supplies distributor, which is organized as a division of Innovest and operates under the name Chagrin Safety Supply, LLC (Chagrin Safety Supply).

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Company have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Going Concern

The Company has a history of recurring losses that has resulted in a stockholders' deficit of \$(282,017) as of December 31, 2018 and \$(2,487) as of December 31, 2017. During the year ended December 31, 2018, the Company recognized a net loss of \$(3,950,366) and used net cash of \$(1,440,948) in operating activities. During the year ended December 31, 2017, the Company recognized a net loss of \$(124,285) and used net cash of \$(58,815) in operating activities.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

The Company's consolidated financial statements are prepared assuming that the Company will continue as a concern. This assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company anticipates future losses in the development of its business, raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Entering 2019, the Company is on a pro forma budget that has closed the gap on losses relative to sales and indicates it could approximately break even, as a result of operations, if unanticipated expenses do not arise. Specifically, the acquisition of Authority National Supply and Midwest Curtain Walls in November and December, respectively, and the meaningful growth of energy sales and other key clients early in 2019 provide profitability that reduces losses. In addition to that activity, the Company is converting Authority National Supply from primarily a group purchase organization with a 1 percent gross margin to a distributor with a gross margin potential of 1 percent to 7 percent from the same sales to the same customers, without raising prices. Additionally, as Midwest Curtain Walls revenue is currently originating from one client, a sales effort has been undertaken that has resulted in bids totaling \$30 million at commensurate profit levels, which would positively impact the Company's net income if won.

Management plans to additionally increase cash flow by acquiring and/or developing profitable businesses that will create positive income from operations, obtaining debt through loans from directors, and/or issuing common shares. Management believes that by taking these actions, the Company will be provided with sufficient future operations and cash flow to continue as a going concern. However, there can be no assurances or guarantees whatsoever that the Company will be successful in consummating such actions on acceptable terms, if at all. Moreover, any such actions can be expected to result in substantial dilution to the existing shareholders of the Company.

Principles of Consolidation

The financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

The Company considers all investments with an original maturity of three months or less when purchased to be cash equivalents.

Concentration of Cash

The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk related to cash.

Trade Accounts Receivable

Accounts receivable are stated at net invoice amounts. Based on management's review of outstanding receivable balances and historical collection information, management's best estimate is that all balances will be collected. Accordingly, the Company has not established an allowance for doubtful accounts.

December 31, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Investments

Investments in equity securities without readily determinable fair value are recorded at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments in the same issuer. Impairment losses are recognized for declines in value that are other than temporary. No impairment losses were recognized for 2018 and 2017.

Inventory

Inventory is stated at the lower of cost or net realizable value, with cost determined on the weighted-average method. Inventory only consists of finished goods.

Management has reviewed inventory quantities and determined that no allowance for obsolete and excess inventory is necessary. Throughout the year, inventory identified as obsolete or excess is written off. The Company will continue its policy of regularly reviewing inventory quantities on hand based on related service levels and functionality. The carrying cost will be reduced to estimated net realizable value for inventories in which their cost exceeds their utility due to changes in marketing and sales strategies, obsolescence, changes in price levels, or other causes.

Property and Equipment

Property and equipment are recorded at cost. Assets are depreciated over their estimated useful lives using the straight-line method. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Goodwill

The recorded amounts of goodwill from business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized, but rather is assessed at least on an annual basis for impairment. It is at least reasonably possible that management's estimates about the fair value of goodwill could change in the near term and that such changes could materially affect amounts reported in the financial statements.

During 2018, management determined that the carrying amount of the H.P. Technologies exceeded its fair value, which was estimated based on the present value of expected future cash inflows. Accordingly, a goodwill impairment loss of \$25,169 was recognized in 2018.

Intangible Assets

Acquired intangible assets subject to amortization are stated at cost and are amortized using the straight-line method over the estimated useful lives of the assets. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. Intangible assets consist of trade names and customer lists and are amortized over 15 years.

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition

The Company's revenue is derived primarily from part sales, services, and the design and manufacture of custom products. These revenue streams are described below relative to each operating component. Transaction prices are specified in each contract and are not typically variable. If the consideration agreed to in a contract includes a variable amount, the Company will estimate the amount of consideration it expects to be entitled to in exchange for transferring the promised goods or services to the customer.

Construction and Building Materials

For the construction of custom commercial window solutions, the Company has performance obligations for the window solution that are recognized over time based on the contract terms. The Company recognizes revenue as costs are incurred (the input method), which best measures progress and results in a right to payment. The production cycle for customer contracts is generally less than 12 months. The Company uses standard, generally accepted payment terms; customers either pay at delivery of the product or are billed upon milestones achieved. A portion of amounts billed are held back as retainage and are generally paid upon project completion. Warranty terms cover the product workmanship and guarantee the product work as intended.

In some situations, the Company bills customers and collects cash prior to the satisfaction of the performance obligation, which results in the Company recognizing contract liabilities. For some contracts, the Company recognizes revenue before its right to some or all consideration becomes unconditional which results in the Company recording contract assets.

The Company connects purchasers of building supplies to vendors and leverages the purchasing power of the group to those participating. Revenue is recognized at a point in time based on when the products are shipped. As the Company is primarily responsible for fulfilling the obligation with the ability to establish the price and inventory risk, the Company is determined to be the principal in the transaction. While net revenue for the period from November 5, 2018 (date of acquisition) to December 31, 2018 totaled \$28,494, gross transaction value for the same period totaled \$3,414,511.

Energy Services

For energy services, the Company has performance obligations for providing lighting and installation services. The Company recognizes revenue as costs are incurred (the input method), which best measures progress and results in a right to payment. The production cycle for customer contracts is generally less than three months. The Company uses standard, generally accepted payment terms; customers typically pay upon completion of the service or are billed. There are no significant obligations for warranties, refunds, or similar obligations.

In some situations, the Company bills customers and collects cash prior to the satisfaction of the performance obligation, which results in the Company recognizing contract liabilities.

The Company also acts as an energy broker connecting residential and commercial businesses with the lowest cost provider. This revenue is recorded as earned each month based on the commission schedule agreed to with each energy (gas or electric) distributor.

Call Center Services

For call center services, the Company has performance obligations for providing staffing resources and recognizes revenue on a monthly basis based on staff hours spent. The customer is invoiced monthly and has 30-day payment terms.

Note 2 - Significant Accounting Policies (Continued)

Other

For distributed part sales, the Company has a performance obligation to deliver goods in accordance with the terms and conditions of the contract. Revenue is recognized at a point in time when the Company transfers control to customers, either evidenced by shipment or delivery to customer when title and risk of loss pass. The Company uses standard, generally accepted payment terms, which require payment upon delivery or within 30 days. There are no significant obligations for refunds, warranties, or similar obligations.

Income Taxes

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

Advertising Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2018 and 2017 was \$275,016 and \$248,000, respectively.

Stock Subscriptions

Stock subscriptions that are paid subsequent to year end but before the date the financial statements are issued for each respective year are treated as receivables in the current assets section on the consolidated balance sheet rather than a deduction from equity.

Earnings per Share

Basic loss per share is based on the weighted-average number of common shares outstanding during the year. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants and the conversion of notes payable to common stock, if applicable. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered antidilutive and, thus, are excluded from the calculation.

Restricted Stock Awards

Stock issued to employees and to nonemployees for services consumed by the company are recognized compensation expense or as applicable operating expenses based on the fair value of the stock on the grant date of the shares issued. See Note 14 for more information.

Shipping and Handling Costs

Shipping and handling costs are recorded as costs of sales as they are incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which supersedes the current lease accounting requirements. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires lessees to disclose certain key information about lease transactions. Upon implementation, an entity's lease payment obligations will be recognized at their estimated present value along with a corresponding right-of-use asset. Lease expense recognition will be generally consistent with current practice. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which simplifies adoption of the new lease accounting requirements by allowing an additional transition method that will not require restatement of prior periods and providing a new practical expedient for lessors to avoid separating lease and nonlease components within a contract if certain requirements are met. The provisions of this guidance must be elected upon adoption of the new lease accounting requirements, which will be effective for interim and annual periods beginning after December 15, 2018.

We will adopt the standard as required on January 1, 2019 and use that date as our date of initial application of the guidance. Consequently, we will not update previously reported financial information, and the disclosures under the new standard will not be provided for dates and periods prior to January 1, 2019. We will elect all of the practical expedients available under the transition guidance. The new standard also provides practical expedients for ongoing accounting. We will elect the short-term lease recognition exemption for all leases that qualify. This means we will not recognize right-of-use assets or lease liabilities for those leases. We will also elect the practical expedient to not separate lease and nonlease components for all of our leases.

We expect that this standard will have a material impact on our financial statements. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to the recognition of new right-of-use assets and lease liabilities on our consolidated balance sheet for our real estate operating leases and the significant new required disclosures regarding our leasing activities. Upon adoption, we expect to recognize additional operating lease liabilities of approximately \$700,000, with corresponding right-of-use assets for the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Company's accounts receivable, by requiring the Company to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for the Company's year ending December 31, 2020. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including May __, 2019, which is the date the consolidated financial statements have been issued.

Note 3 - New Accounting Principles

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the guidance for revenue recognition. This amendment contains principles that require an entity to recognize revenue to depict the transfer of promised goods and services to customers at an amount an entity expects to be entitled to in exchange for those promised goods or services. The Company adopted this amendment on January 1, 2018, using the modified retrospective method for all contracts for which performance was not completed as of January 1, 2018. There was no adjustment to opening equity as a result of the adoption of ASC 606, as there was no change to recognizing revenue from current practice. See also Note 10 for additional details on revenue recognition.

ASU No. 2016-01, Financial Instruments (Topic 825)

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU covers various changes to the accounting, measurement, and disclosures related to certain financial instruments, including requiring equity investments to be accounted for at fair value with changes recorded through earnings, the use of the exit price when measuring fair value, and disaggregation of financial assets and liabilities by category for disclosure purposes. The ASU also provides guidance on the accounting treatment for measurement of equity investments that do not have a readily determinable fair value. This new guidance is effective for the Company's year ended December 31, 2018. See Note 5 for the impact this standard has on the financial statements.

ASU No. 2017-04, Intangibles - Goodwill (Topic 350)

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment*. The standard simplifies the subsequent measurement of goodwill, requiring only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value, instead of the current two-step test. A qualitative assessment may still be completed first to determine if a quantitative impairment test is required. While this standard is effective on a prospective basis for fiscal years beginning after December 15, 2019 for public business entities, the Company has decided to early adopt the standard as of December 31, 2018 in assessing goodwill impairment. See Note 7 for the impact this standard has on the financial statements.

ASU No. 2018-07, Compensation - Stock Compensation (Topic 718)

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Based Payment Accounting (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This amendment expands the scope of Topic 718 to include nonemployee awards for acquiring goods and services from nonemployees. This amendment treats employee and nonemployee stock-based awards the same, which is to measure the transaction at the grant-date fair value of the equity instruments that the entity is obligated to issue when the good has been delivered or the service has been rendered. While the standard is effective for fiscal years beginning after December 15, 2018, the Company has decided to early adopt the standard to account for its stock-based awards in order to simplify measurement processes as of January 1, 2018. See Note 14 for the impact this standard has on the financial statements.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations

Chagrin Safety Supply

On October 23, 2017, the Company entered into an asset purchase agreement with Chagrin Safety Supply, pursuant to which the Company purchased substantially all the assets and assumed certain liabilities of Chagrin Safety Supply. The complementary strength of certain company businesses are expected to create product and distribution synergies. The Company is expected to gain entry into new product categories by the association with other commercial companies acquired. The purchase price consisted of cash, shares of the Company's restricted common stock, and a stock guarantee.

| | |
|---|-------------------|
| Cash | \$ 750 |
| Equity instruments (750,000 common shares of the Company) | 5,774 |
| Stock guarantee liability | <u>139,000</u> |
| Fair value of total consideration transferred | <u>\$ 145,524</u> |

The fair value of the 750,000 shares issued as part of the consideration transferred for Chagrin Safety Supply was determined on the basis of the value of shares trading near the time of acquisition.

Under the terms of the acquisition agreement, the former stockholders of Chagrin Safety Supply are guaranteed that the value of the 750,000 shares issued will be trading at \$1 per share by the fourth anniversary of the acquisition, or October 23, 2021. The value of this guarantee was determined to be \$139,000 at the time of acquisition. See Note 16 regarding the valuation methodology and key assumptions made in the determination of this liability at date of acquisition and at year end.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

| | |
|-------------------------------|-------------------|
| Cash | \$ 453 |
| Accounts receivable | 24,200 |
| Inventories | 9,176 |
| Accounts payable | (45,882) |
| Accrued liabilities | <u>(63,804)</u> |
| Total identifiable net assets | (75,857) |
| Goodwill | <u>221,381</u> |
| Total | <u>\$ 145,524</u> |

The fair value of financial assets includes accounts receivable with a contractual amount due of \$24,200, which is expected to be collected in the full amount. The goodwill arising from the acquisition consists primarily of the going-concern element of the existing business (the higher rate of return on the assembled collection of net assets versus if the Company had acquired all of the net assets separately). There were no acquisition costs related to this transaction.

The \$139,000 stock guarantee represents a measurement period adjustment that was made in 2018. This amount has been included in the total consideration transferred and the goodwill recognized.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

The amounts of Chagrin Safety Supply's revenue and earnings included in the accompanying consolidated statement of operations for the year ended December 31, 2017 totaled \$41,750 and \$2,169, respectively, from the date of acquisition. The following pro forma information for 2017 is based on the assumption that the acquisition of Chagrin Safety Supply occurred on January 1, 2017:

| | December 31 2017 |
|------------|---------------------|
| Revenue | \$ 305,284 |
| Net income | 84,014 |

Shepherd Energy

Effective on January 1, 2018, the Company acquired 100 percent of the equity of Shepherd Energy, LLC (Shepherd Energy). The primary reason for the acquisition was to launch a commercial energy division and further diversify the Company's portfolio. The purchase price consisted of shares of the Company's restricted common stock and a stock guarantee.

The following table summarizes the fair value of the consideration transferred as part of the acquisition of Shepherd Energy:

| | |
|---|--------------|
| Equity instruments (5,790,000 common shares of the Company) | \$ 185,280 |
| Stock guarantee liability | 1,000,000 |
| Fair value of total consideration transferred | \$ 1,185,280 |

The fair value of the 5,790,000 shares issued as part of the consideration transferred for Shepherd Energy was determined on the basis of the value of shares trading near the time of acquisition.

Under the terms of the acquisition agreement, the former stockholders of Shepherd Energy are guaranteed that the issued stocks will be worth \$1 per share and \$5,790,000 in the aggregate at December 28, 2019. The value of this guarantee was determined to be \$1,000,000 at the time of acquisition. See Note 16 regarding the valuation methodology and key assumptions made in the determination of this liability at date of acquisition and at year end.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

| | |
|-------------------------------|--------------|
| Cash | \$ 13,859 |
| Accounts receivable | 7,152 |
| Other current assets | 41,749 |
| Accounts payable | (56,826) |
| Total identifiable net assets | 5,934 |
| Goodwill | 1,179,346 |
| Total | \$ 1,185,280 |

The fair value of financial assets includes accounts receivable with a contractual amount due of \$7,152, which is expected to be collected in the full amount. The goodwill arising from the acquisition consists primarily of the going-concern element of the existing business (the higher rate of return on the assembled collection of net assets versus if the Company had acquired all of the net assets separately). There were no acquisition-related costs related to this transaction.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

The amounts of Shepherd Energy's revenue and loss included in the accompanying consolidated statement of operations for the year ended December 31, 2018 totaled \$697,237 and \$(233,729), respectively, from the date of acquisition. The following pro forma information for 2017 is based on the assumption that the acquisition of Shepherd Energy occurred on January 1, 2017:

| | December 31 2017 |
|------------|---------------------|
| Revenue | \$ 496,562 |
| Net income | 2 |

Contact Source Solutions

On January 15, 2018, the Company acquired 100 percent of the equity interest of Contact Source Solutions. The primary reason for the acquisition was to increase revenue stream, as well as a business unit that can provide marketing solutions for the other business units. The purchase price consisted of shares of the Company's restricted common stock and a stock guarantee.

The following table summarizes the fair value of the consideration transferred as part of the acquisition of Contact Source Solutions:

| | |
|---|-------------------|
| Equity instruments (2,500,000 common shares of the Company) | \$ 43,875 |
| Stock guarantee liability | <u>500,000</u> |
| Fair value of total consideration transferred | <u>\$ 543,875</u> |

The fair value of the 2,500,000 shares issued as part of the consideration transferred for Contact Source Solutions was determined on the basis of the value of shares trading near the time of acquisition.

Under the terms of the acquisition agreement, the former stockholders of Contact Source Solutions are guaranteed that the issued stocks will be worth \$1 per share and \$2,500,000 in the aggregate at March 22, 2020. The value of this guarantee was determined to be \$500,000 at the time of acquisition. See Note 16 regarding the valuation methodology and key assumptions made in the determination of this liability at date of acquisition and at year end.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

| | |
|-------------------------------|-------------------|
| Cash | \$ 12,375 |
| Accounts receivable | 103,087 |
| Accounts payable | (21,670) |
| Accrued liabilities | <u>(56,769)</u> |
| Total identifiable net assets | 37,023 |
| Goodwill | <u>506,852</u> |
| Total | <u>\$ 543,875</u> |

The fair value of financial assets includes accounts receivable with a contractual amount due of \$103,087, which is expected to be collected in the full amount. The goodwill arising from the acquisition consists primarily of the going-concern element of the existing business (the higher rate of return on the assembled collection of net assets versus if the Company had acquired all of the net assets separately). There were no acquisition-related costs related to this transaction.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

The amounts of Contact Source Solutions' revenue and earnings included in the accompanying consolidated statement of operations for the year ended December 31, 2018 totaled \$1,371,455 and \$126,353, respectively, from the date of acquisition. The following pro forma information for 2018 and 2017 is based on the assumption that the acquisition of Contact Source Solutions occurred on January 1, 2017:

| | December 31 2018 | December 31 2017 |
|------------|---------------------|---------------------|
| Revenue | \$ 1,474,112 | \$ 957,768 |
| Net income | 150,472 | 30,630 |

H.P. Technologies

On March 22, 2018, the Company acquired 100 percent of the outstanding common shares of H.P. Technologies. The primary reason for the acquisition was to strengthen the commercial energy division and further diversify the Company's portfolio. The purchase price consisted of shares of the Company's restricted common stock and a stock guarantee.

The following table summarizes the fair value of the consideration transferred as part of the acquisition of H.P. Technologies:

| | |
|---|-------------------|
| Equity instruments (1,500,000 common shares of the Company) | \$ 30,000 |
| Stock guarantee liability | <u>600,000</u> |
| Fair value of total consideration transferred | <u>\$ 630,000</u> |

The fair value of the 1,500,000 shares issued as part of the consideration transferred for H.P. Technologies was determined on the basis of the value of shares trading near the time of acquisition.

Under the terms of the acquisition agreement, the former stockholders of Contact Source Solutions are guaranteed that the issued stocks will be worth \$1 per share and \$1,500,000 in the aggregate at March 22, 2020. The value of this guarantee was determined to be \$600,000 at the time of acquisition. See Note 16 regarding the valuation methodology and key assumptions made in the determination of this liability at date of acquisition and at year end.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

| | |
|---------------------------------------|-------------------|
| Cash | \$ 65,508 |
| Accounts receivable | 128,469 |
| Intangible asset - Trade names | 131,000 |
| Intangible asset - Customer contracts | 229,000 |
| Commissions payable | (64,586) |
| Accrued liabilities | <u>(65,509)</u> |
| Total identifiable net assets | 423,882 |
| Goodwill | <u>206,118</u> |
| Total | <u>\$ 630,000</u> |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

The fair value of financial assets includes accounts receivable with a contractual amount due of \$128,469, which is expected to be collected in the full amount. The goodwill arising from the acquisition consists primarily of the going-concern element of the existing business (the higher rate of return on the assembled collection of net assets versus if the Company had acquired all of the net assets separately) and an assembled workforce. There were no acquisition-related costs related to this transaction.

The amounts of H.P. Technologies's revenue and earnings included in the accompanying consolidated statement of operations for the year ended December 31, 2018 totaled \$1,044,435 and \$33,169, respectively, from the date of acquisition. The following pro forma information for 2018 and 2017 is based on the assumption that the acquisition of H.P. Technologies occurred on January 1, 2017:

| | December 31 2018 | December 31 2017 |
|------------|---------------------|---------------------|
| Revenue | \$ 1,469,104 | \$ 1,206,040 |
| Net income | 130,594 | 210,005 |

Authority National Supply

On November 5, 2018, the Company acquired 100 percent of the member units of Authority National Supply. The primary reason for the acquisition was to strategically expand within the building supply distribution industry. The purchase price consisted of cash, shares of the Company's restricted common stock, and a stock guarantee.

The following table summarizes the fair value of the consideration transferred as part of the acquisition of Authority National Supply:

| | |
|---|---------------------|
| Cash | \$ 55,000 |
| Equity instruments (5,000,000 common shares of the Company) | 750,000 |
| Stock guarantee liability | <u>1,700,000</u> |
| Fair value of total consideration transferred | <u>\$ 2,505,000</u> |

The fair value of the 5,000,000 shares to be issued as part of the consideration transferred for Authority National Supply was determined on the basis of the value of other restricted shares issued at the date of the transaction. These shares were not issued until 2019; consequently, the Company has recorded the commitment to issue the shares as a liability as of December 31, 2018. This fair value of this share issuance liability has been measured based on the value of other restricted shares issued at the date of the transaction.

Under the terms of the acquisition agreement, the former members of Authority National Supply are guaranteed that the issued stocks will be worth \$1 per share and \$5,000,000 in the aggregate at November 5, 2020. The value of this guarantee was determined to be \$1,700,000 at the time of acquisition. See Note 16 regarding the valuation methodology and key assumptions made in the determination of this liability at date of acquisition and at year end.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

| | |
|--------------------------------|---------------------|
| Cash | \$ 88,224 |
| Accounts receivable | 2,054,311 |
| Property, plant, and equipment | 19,709 |
| Other assets | 14,096 |
| Accounts payable | (2,104,464) |
| Accrued liabilities | <u>(66,043)</u> |
| Total identifiable net assets | 5,833 |
| Goodwill | <u>2,499,167</u> |
| Total | <u>\$ 2,505,000</u> |

The fair value of financial assets includes accounts receivable with a contractual amount due of \$2,054,311, which is expected to be collected in the full amount. The goodwill arising from the acquisition consists primarily of future business growth and the going-concern element of the existing business (the higher rate of return on the assembled collection of net assets versus if the Company had acquired all of the net assets separately). Acquisition-related costs, which include legal, accounting, and valuation fees, totaled \$68,261 and have been included in operating expenses in the accompanying consolidated statement of operations.

The amounts of Authority National Supply's revenue and loss included in the accompanying statement of operations for the year ended December 31, 2018 totaled \$2,599,576 and \$(17,125), respectively, from the date of acquisition. The following pro forma information for 2018 and 2017 is based on the assumption that the acquisition of Authority National Supply occurred on January 1, 2017:

| | December 31 2018 | December 31 2017 |
|----------|---------------------|---------------------|
| Revenue | \$ 24,989,109 | \$ 28,259,895 |
| Net loss | (19,387) | (71,454) |

Midwest Curtain Walls

On December 1, 2018, the Company acquired 100 percent of the outstanding common shares of Midwest Curtain Walls. The primary reason for the acquisition was to expand its penetration in the building materials segment, as well as geographic reach. At the time of purchase, the Midwest Curtain Walls shares were held in an estate that was not in a position to continue to manage the operations. The estate needed to sell the company by a certain date and did not have time to properly market it to other potential buyers. The purchase price consisted of shares of the Company's restricted common stock, contingent consideration, and a stock guarantee.

The following table summarizes the fair value of the consideration transferred as part of the acquisition of Midwest Curtain Walls:

| | |
|---|---------------------|
| Equity instruments (2,000,000 common shares of the Company) | \$ 300,000 |
| Contingent consideration | 32,000 |
| Stock guarantee liability | <u>750,000</u> |
| Total | <u>\$ 1,082,000</u> |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

The fair value of the 2,000,000 shares issued as part of the consideration transferred for Midwest Curtain Walls was determined on the basis of the value of other restricted shares issued at the time of acquisition.

Contingent consideration consists of a success fee based on the profitability of current jobs in progress.

All of the 2,000,000 shares issued in connection with this agreement are subject to a stock guarantee as follows. Under the terms of the acquisition agreement, the former members of Midwest Curtain Walls are guaranteed that the 1,600,000 of issued stocks will be worth \$1.25 per share and \$2,000,000 in the aggregate at December 1, 2020. The value of this guarantee was determined to be \$600,000 at the time of acquisition. In addition, the 400,000 shares issued to settle a shareholder loan are guaranteed to be trading at \$1.00 per share or \$400,000 in the aggregate at December 1, 2020. The value of this guarantee was determined to be \$150,000 at the time of acquisition.

See Note 16 regarding the valuation methodology and key assumptions made in the determination of this liability at the date of acquisition and at year end.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

| | |
|--------------------------------|---------------------|
| Cash | \$ 133,348 |
| Accounts receivable | 2,711,384 |
| Inventory | 25,006 |
| Property, plant, and equipment | 308,770 |
| Intangible asset - Backlog | 333,000 |
| Other assets | 19,103 |
| Accounts payable | (1,450,245) |
| Accrued liabilities | (62,339) |
| Debt | <u>(491,427)</u> |
| Total identifiable net assets | 1,526,600 |
| Bargain purchase gain | <u>(444,600)</u> |
| Total | <u>\$ 1,082,000</u> |

The fair value of financial assets includes accounts receivable with a contractual amount due of \$2,711,384, which is expected to be collected in the full amount. Liabilities arising from contingencies consist of stock guarantee liability and have been recognized at fair value. Acquisition-related costs, which include legal, accounting, and valuation fees, totaled \$21,800 and have been included in operating expenses in the accompanying consolidated statement of operations.

The amounts of Midwest Curtain Walls's revenue and operating income included in the accompanying consolidated statement of operations for the year ended December 31, 2018 totaled \$1,118,064 and \$252,088, respectively, from the date of acquisition. The following pro forma information for 2018 and 2017 is based on the assumption that the acquisition of Midwest Curtain Walls occurred on January 1, 2017:

| | December 31 2018 | December 31 2017 |
|----------|---------------------|---------------------|
| Revenue | \$ 6,466,392 | \$ 4,303,366 |
| Net loss | (450,157) | (1,449,740) |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

Summary of 2018 and 2017 Activity

The table below summarizes the fair value of the total consideration transferred for the business combinations occurring in 2018 and 2017.

| | 2018 | 2017 |
|---|---------------------|-------------------|
| Cash | \$ 55,000 | \$ 750 |
| Equity instruments | 1,309,155 | 5,774 |
| Contingent consideration | 32,000 | - |
| Stock guarantee liability | 4,550,000 | 139,000 |
| Fair value of total consideration transferred | <u>\$ 5,946,155</u> | <u>\$ 145,524</u> |

The acquisition date fair values of the assets acquired and liabilities assumed for the business combinations are summarized as follows:

| | 2018 | 2017 |
|-------------------------------|---------------------|-------------------|
| Cash | \$ 313,314 | \$ 453 |
| Accounts receivable | 5,004,403 | 24,200 |
| Inventory | 25,006 | 9,176 |
| Property and equipment | 328,479 | - |
| Customer contracts | 229,000 | - |
| Trade names | 131,000 | - |
| Backlog | 333,000 | - |
| Other assets | 74,948 | - |
| Commissions payable | (64,586) | - |
| Accounts payable | (3,633,205) | (45,882) |
| Accrued liabilities | (250,660) | (63,804) |
| Debt | (491,427) | - |
| Total identifiable net assets | 1,999,272 | (75,857) |
| Goodwill | 4,391,483 | 221,381 |
| Bargain purchase gain | (444,600) | - |
| Total | <u>\$ 5,946,155</u> | <u>\$ 145,524</u> |

The following pro forma information for 2018 and 2017 is based on the assumption that all of the acquisitions occurring above occurred on January 1, 2017:

| | December 31 2018 | December 31 2017 |
|----------|---------------------|---------------------|
| Revenue | \$ 34,398,717 | \$ 35,223,631 |
| Net loss | (188,478) | (1,280,557) |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 4 - Business Combinations (Continued)

Subsequent Event - Primary Metering Solutions

On January 1, 2019, the Company acquired assets including sales contracts, of Primary Metering Solutions LLC.

The following table summarizes the fair value of the consideration transferred as part of the acquisition.

| | |
|---|-------------------|
| Cash ENTIRE TABLE IS OPEN..... | \$ 25,000 |
| Equity instruments (1,000,000 common shares of the Company) | <u>150,000</u> |
| Fair value of total consideration transferred | <u>\$ 175,000</u> |

The fair value of the 1,000,000 shares issued as part of the consideration transferred for Primary Metering Solutions was determined on the basis of the value of other restricted shares issued at the time of acquisition.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

| | |
|-------------------------------|-------------------|
| Contracts | \$ 275,000 |
| Total identifiable net assets | <u>275,000</u> |
| Total | <u>\$ 275,000</u> |

OPEN FOR DETAILS

The following pro forma information for 2018 and 2017 is based on the assumption that the acquisition of Primary Metering Solutions occurred on January 1, 2017:

| | December 31, 2018 | December 31 2017 |
|-------------------|----------------------|---------------------|
| Revenue | \$ 0 | \$ 0 |
| Net income (loss) | 0 | 0 |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 5 - Investment

On July 17, 2018, the Company acquired 20 percent of StemVax Therapeutics (StemVax) for 2.5 million common IVST shares and cash of \$16,742 related to the anticipated requirements of pending license agreements, presently being negotiated by StemVax with Cedars-Sinai Medical Center (Cedars) in Los Angeles, California. Cedars owns intellectual property that StemVax requires to effectuate its business plan, and these license agreements would satisfy the business requirements. The license agreements were successfully executed. The investment has not been accounted for using the equity method, as the Company does not have significant influence over the issuer. The investment is recorded at \$141,742, which represents the cost incurred related to license agreements plus the value of IVST shares issued based on the trading value of \$0.05 per share at the time of issuance or \$125,000. This holding is not expected to generate revenue in the short term, but represents what the Company believes will be a substantially valuable intellectual property holding.

Note 6 - Property and Equipment

Property and equipment at December 31, 2018 are summarized as follows:

| | Amount | Depreciat Life - Years |
|---------------------------------|------------|---------------------------|
| Machinery and equipment | \$ 289,666 | 9 |
| Transportation equipment | 8,950 | 2 |
| Furniture and fixtures | 58,113 | 3-10 |
| Computer equipment and software | 18,785 | 3-5 |
| Total cost | 375,514 | |
| Accumulated depreciation | 5,908 | |
| Net property and equipment | \$ 369,606 | |

Depreciation expense for 2018 was \$5,908\$0. There was no property or equipment in 2017.

Note 7 - Acquired Intangible Assets and Goodwill

Intangible assets of the Company at December 31, 2018 are summarized as follows:

| | Gross Carryin Amount | Accumulate Amortization |
|-----------------------------------|-------------------------|----------------------------|
| Amortized intangible assets: | | |
| Customer contracts | \$ 229,000 | \$ 11,450 |
| Trade names | 131,000 | 6,550 |
| Backlog | 333,000 | 27,750 |
| Total amortized intangible assets | \$ 693,000 | \$ 45,750 |

There were no Intangible assets as of December 31, 2017, and amortization expense for 2018 totaled \$45,750.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 7 - Acquired Intangible Assets and Goodwill (Continued)

Amortization expense for the years ending December 31 is as follows:

| Years Ending | Amount |
|--------------|-------------------|
| 2019 | \$ 329,250 |
| 2020 | 24,000 |
| 2021 | 24,000 |
| 2022 | 24,000 |
| 2023 | 24,000 |
| Thereafter | <u>222,000</u> |
| Total | <u>\$ 647,250</u> |

The changes in the carrying amount of goodwill (by reportable segment) are as follows:

| | 2018 | | | | |
|--|---------------------|---------------------|-----------------------|-------------------|---------------------|
| | Construction and | Energy Services | Call Cent Services | All Other | Total |
| Balance - January 1: | | | | | |
| Goodwill | \$ - | \$ - | \$ - | \$ 82,381 | \$ 82,381 |
| Less accumulated impairment losses | - | - | - | - | - |
| Opening goodwill - Net | <u>-</u> | <u>-</u> | <u>-</u> | <u>82,381</u> | <u>82,381</u> |
| Current year activity: | | | | | |
| Goodwill as a result of business acquisition | 2,499,167 | 1,385,464 | 506,852 | - | 4,391,483 |
| Remeasurement adjustment | - | - | - | 139,000 | 139,000 |
| Impairment losses | - | (25,169) | - | - | (25,169) |
| Ending goodwill - Net | <u>\$ 2,499,167</u> | <u>\$ 1,360,295</u> | <u>\$ 506,852</u> | <u>\$ 221,381</u> | <u>\$ 4,587,695</u> |
| Balance - December 31: | | | | | |
| Goodwill | 2,499,167 | 1,385,464 | 506,852 | 221,381 | 4,612,864 |
| Less accumulated impairment losses | - | 25,169 | - | - | 25,169 |
| Ending goodwill - Net | <u>\$ 2,499,167</u> | <u>\$ 1,360,295</u> | <u>\$ 506,852</u> | <u>\$ 221,381</u> | <u>\$ 4,587,695</u> |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 7 - Acquired Intangible Assets and Goodwill (Continued)

| | 2017 | | | | Total |
|--|------------------|-----------------|----------------------|------------------|------------------|
| | Construction and | Energy Services | Call Center Services | All Other | |
| Balance - January 1: | | | | | |
| Goodwill | \$ - | \$ - | \$ - | \$ - | \$ - |
| Less accumulated impairment losses | - | - | - | - | - |
| Opening goodwill - Net | - | - | - | - | - |
| Current year activity - Goodwill as a result of business acquisition | - | - | - | 82,381 | 82,381 |
| Ending goodwill - Net | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 82,381</u> | <u>\$ 82,381</u> |
| Balance - December 31: | | | | | |
| Goodwill | - | - | - | 82,381 | 82,381 |
| Less accumulated impairment losses | - | - | - | - | - |
| Ending goodwill - Net | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 82,381</u> | <u>\$ 82,381</u> |

Each reportable segment noted above is a specific reporting unit for goodwill impairment testing purposes. Goodwill is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value, which was estimated based on the present value of expected future cash inflows. Accordingly, a goodwill impairment loss of \$25,169 was recognized in 2018. Each reporting unit had a zero or negative carrying amount at December 31, 2018 and 2017.

Note 8 - Line of Credit

Midwest Curtain Walls has a line of credit agreement with a bank to borrow up to \$1,500,000 to support working capital needs. Interest is payable monthly at the one-month LIBOR plus 2.75 percent (an effective rate of 5.25 percent at December 31, 2018). The line of credit is collateralized by all assets of Midwest Curtain Walls. The balance outstanding on this line of credit was \$348,640 at December 31, 2018.

In January 2019, the Company entered into a forbearance agreement with the bank (see Note 9), which prohibited additional borrowings under the line of credit. Additionally, the line of credit is to be repaid in monthly principal payments of \$50,000 through August 2019 and a final payment of \$48,640 due in September 2019.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 9 - Notes Payable

Notes payable at December 31 are as follows:

| | 2018 | 2017 |
|---|-------------------|------------------|
| Midwest Curtain Walls - Note payable to bank with interest of 4.85 percent and due in full in September 2019. Secured by specific equipment | \$ 138,584 | \$ - |
| IVST - Unsecured working capital note payable to a related party (TN3, LLC) with interest of 7 percent. This note matured in July 2018 | - | 34,608 |
| IVST - Unsecured working capital note payable with interest at 7 percent. This note matured in July 2018 | - | 6,992 |
| Total | <u>\$ 138,584</u> | <u>\$ 41,600</u> |

Ownership transitions before the acquisition of Midwest Curtain Walls and the acquisition of Midwest Curtain Walls by IVST have caused the note payable and the line of credit (see Note 10) to be in default, and remedied through a forbearance agreement entered into in January 2019. The note is required to be paid in full by September 2019 as a result of the conditions of the forbearance. Accordingly, the note payable has been classified as a current liability.

Interest expense for 2018 and 2017 was \$25,696 and \$4,150, respectively.

Note 10 - Revenue Recognition

The following table shows revenue from contracts with customer by business segments. Predominately all revenue is derived from customers within the midwestern part of the United States.

| Segments | 2018 | | | | | | Total |
|--------------------------------|---------------------|---------------------|----------------------|-------------------|-----------------|-------------|---------------------|
| | Construction a | Energy Services | Call Center Services | Other | Corporate | | |
| Major goods/service lines: | | | | | | | |
| Goods | \$ 2,599,576 | \$ - | \$ - | \$ 336,745 | \$ - | \$ - | \$ 2,936,321 |
| Customized goods | 1,118,064 | - | - | - | - | - | 1,118,064 |
| Commission | - | 1,044,435 | - | - | - | - | 1,044,435 |
| Lighting solutions | - | 697,237 | - | - | - | - | 697,237 |
| Call center | - | - | 1,371,455 | - | - | - | 1,371,455 |
| Other | - | - | - | - | 6,006 | - | 6,006 |
| Total | <u>\$ 3,717,640</u> | <u>\$ 1,741,672</u> | <u>\$ 1,371,455</u> | <u>\$ 336,745</u> | <u>\$ 6,006</u> | <u>\$ -</u> | <u>\$ 7,173,518</u> |
| Timing of revenue recognition: | | | | | | | |
| Point in time | \$ 2,599,576 | \$ 1,044,435 | \$ 1,371,455 | \$ 336,745 | \$ 6,006 | \$ - | \$ 5,358,217 |
| Over time | 1,118,064 | 697,237 | - | - | - | - | 1,815,301 |
| Total | <u>\$ 3,717,640</u> | <u>\$ 1,741,672</u> | <u>\$ 1,371,455</u> | <u>\$ 336,745</u> | <u>\$ 6,006</u> | <u>\$ -</u> | <u>\$ 7,173,518</u> |

Revenue for 2017 was only derived from sale of goods and was recognized at a point in time.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 10 - Revenue Recognition (Continued)

Contract Liabilities

Contract liabilities consist of billings in excess of costs and estimated earnings, as presented on the consolidated balance sheet. The following table provides information on the changes in the balance of contract liabilities for the year ended December 31, 2018:

| | | |
|---|----|------------------|
| Opening balance | \$ | - |
| Cash received | | 269,382 |
| Acquired in business combination | | 38,359 |
| Less revenue recognized from continuing operations (net of returns, allowances, etc.) - From satisfaction of performance obligations in the current period | | <u>(127,147)</u> |
| Closing balance | \$ | <u>180,594</u> |

Total contract liabilities increased by \$108,594 during the year ended December 31, 2018. The increase was primarily due to businesses acquired during 2018.

Contract Assets

Contract assets consists of costs in excess of billings, as presented on the consolidated balance sheet. The following table provides information on the changes in the balance of contract assets for the year ended December 31, 2018:

| | | |
|--|----|--------------------|
| Opening balance | \$ | - |
| Revenue recognized from continuing operations (net of returns, allowances, etc.) - From satisfaction of performance obligations in the current period | | 1,118,064 |
| Less consideration - Factoring agreements | | <u>(1,030,447)</u> |
| Closing balance | \$ | <u>87,617</u> |

Total increase in contract assets and revenue from continuing operations was related to businesses acquired during 2018.

There were no impairment losses on trade receivables or contract assets, except for approximately \$39,000 of bad debt expense incurred during the year ended December 31, 2018.

Performance Obligations

Revenue that is expected to be recognized related to performance obligations that have not been fully satisfied as of December 31, 2018 totals \$7,075,209 and is expected to be realized during 2019.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 11 - Business Segment Information

Innovest Global, Inc. has three reportable segments: construction and building materials, energy services, and call center services. The construction and building materials segment designs and manufactures nonstructural window solutions for commercial building contractors and acts as an agent leveraging the combined purchasing power of its customers in securing vendor pricing for construction-related supplies. The energy segment provides energy broker services for both residential and commercial businesses throughout Ohio and designs and installs energy-efficient lighting solutions. The call center services segment provides inbound and outbound call center services to commercial and industrial clients primarily in Ohio and is currently serving the medical supplies sector.

Innovest Global, Inc.'s reportable segments are strategic business units that offer different product and service offerings. They are managed separately because each business requires different technology and marketing strategies. All of the businesses were acquired individually, and the management at the time of the acquisition was retained if possible.

The following table provides selected information as of and for the year ended December 31, 2018. Reportable segments did not exist prior to 2018.

| | Construction | Energy Services | Call Center Services | All Other (a) | Corporate | Eliminations | Total |
|--|--------------|-----------------|----------------------|---------------|-------------|--------------|--------------|
| Revenue from external customers | \$ 3,717,640 | \$ 1,741,672 | \$ 1,371,455 | \$ 336,745 | \$ 12,006 | \$ (6,000) | \$ 7,173,518 |
| Interest revenue | - | - | - | - | 1,635 | - | 1,635 |
| Interest expense | 4,269 | 1,909 | 19,047 | 470 | 1 | - | 25,696 |
| Depreciation and amortization | 30,056 | 18,000 | - | - | - | - | 48,056 |
| Operating income (loss) | 207,220 | (241,820) | 77,603 | (23,786) | (2,161,468) | - | (2,142,251) |
| Noncash charge for adjustment to fair value of stock guarantee | 90,000 | 1,490,000 | 560,000 | 90,000 | - | - | 2,230,000 |
| Segment profit (loss) | 558,897 | (1,733,729) | (501,444) | (114,256) | (2,159,834) | - | (3,950,366) |
| Goodwill | 2,499,167 | 1,360,295 | 506,852 | 221,381 | - | - | 4,587,695 |
| Segment assets | 8,877,319 | 2,035,667 | 630,638 | 257,406 | 969,014 | (123,500) | 12,646,544 |

(a) Revenue from segments below the quantitative thresholds is attributable to one operating segment of Innovest Global, Inc. This segment includes a small safety supplies distributor. The segment has never met any of the quantitative thresholds for designating it as a reportable segment.

Note 12 - Operating Leases

The Company is obligated under operating leases primarily for facilities, expiring at various dates through 2023. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was \$73,420 and \$0\$0\$0 for 2018 and 2017, respectively.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 12 - Operating Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

| Years Endi December 31 | Amount |
|---------------------------|-------------------|
| 2019 | \$ 206,188 |
| 2020 | 164,188 |
| 2021 | 141,046 |
| 2022 | 141,046 |
| 2023 | <u>141,046</u> |
| Total | <u>\$ 793,514</u> |

Note 13 - Income Taxes

The components of the income tax provision included in the consolidated statement of operations are all attributable to continuing operations and are detailed as follows:

| | <u>2018</u> | <u>2017</u> |
|--|----------------|---------------|
| Current income tax expense (recovery) | \$ - | \$ - |
| Deferred income tax recovery | (915,008) | (33,578) |
| Change in valuation reserve | <u>915,008</u> | <u>33,578</u> |
| Total income tax expense (recovery) | <u>\$ -</u> | <u>\$ -</u> |
| | <u>2018</u> | <u>2017</u> |
| Income tax recovery, computed at 21 percent of pretax loss | \$ (829,577) | \$ (26,100) |
| Effect of nontaxable income | (86,540) | - |
| Increase in valuation reserve | 915,008 | 33,578 |
| Changes to statutory tax rates | - | (14,935) |
| Other | <u>1,109</u> | <u>7,457</u> |
| Total provision for income taxes | <u>\$ -</u> | <u>\$ -</u> |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 13 - Income Taxes (Continued)

The details of the net deferred tax asset (liability) are as follows:

| | 2018 | 2017 |
|--|-------------|----------|
| Deferred tax assets: | | |
| Contingent consideration - Stock guarantee liability | \$ 625,800 | \$ - |
| Net operating loss and tax credit carryforward | 490,823 | 52,273 |
| Other | 22,802 | - |
| Gross deferred tax assets | 1,139,425 | 52,273 |
| Valuation allowance recognized for deferred tax assets | (1,049,020) | (52,273) |
| Net deferred tax assets | 90,405 | - |
| Deferred tax liabilities: | | |
| Depreciation and amortization | (20,474) | - |
| Backlog | (69,931) | - |
| Gross deferred tax liabilities | (90,405) | - |
| Net deferred tax asset (liability) | \$ - | \$ - |

The Company has approximately \$2,337,000 of net operating loss carryforwards available to reduce future income taxes that have no expiration.

Realization of deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of loss carryforwards. Due to uncertainty as to the realization of the net operating loss carryforwards, a valuation allowance has been recorded against the related deferred tax assets.

The valuation allowance increased by \$915,008 from current year operating results and increased an additional \$81,739 as a result of a valuation allowance established at acquisition related to Midwest Curtain Walls.

Note 14 - Stockholders' Equity

Stock Compensation and Other Stock Awards

During 2018, the Company issued 16,365,000 shares of its restricted common stock to employees and service providers. A total of 7,975,000 shares were issued to employees, officers, or directors of the Company, and 8,390,000 shares were issued for consulting services to nonemployees. The fair value of the shares issued was determined based on actual transactions of the Company's stock occurring around the time the shares were granted and resulted in a \$631,575 increase to equity and a charge to operations for the year ended December 31, 2018. All of the stock awards granted in 2018 were fully vested upon issuance. No stock-based awards were granted in 2017.

Common and Preferred Stock

During 2018, the Company converted 500,000 shares of preferred stock into 50,000,000 shares of common stock. The 50,000,000 were then canceled prior to December 31, 2018.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 15 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following tables present information about the Company's assets and liabilities measured at fair value at December 31, 2018 and 2017.

| | Quoted Price (Level 1) | Significant O (Level 2) | Significant L (Level 3) |
|---------------------------|---------------------------|----------------------------|----------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 793,903 | \$ - | \$ - |
| Accounts receivable | 4,808,704 | - | - |
| Total assets | <u>\$ 5,602,607</u> | <u>\$ -</u> | <u>\$ -</u> |
| Liabilities | | | |
| Accounts payable | \$ 3,565,494 | - | - |
| Bank line of credit | 348,640 | - | - |
| Note payable | 138,584 | - | - |
| Stock guarantee (Note 16) | - | - | 6,919,000 |
| Total liabilities | <u>\$ 4,052,718</u> | <u>\$ -</u> | <u>\$ 6,919,000</u> |

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 16 - Stock Guarantee Liability

In connection with business combinations (see Note 4), Innovest Global, Inc. has recorded contingent consideration in the form of a guaranteed stock price at a future date. Should the stock price not reach the guaranteed market price by the agreed-upon date, the Company has guaranteed the difference in the form of issuance of additional shares of stock. The maximum potential payments under these guarantees are equal to the number of shares multiplied by the guaranteed stock price. The Company has recorded a stock guarantee liability upon issuance of the guarantee and has adjusted the fair value at December 31, 2018. Adjustments to the liability are recorded in the accompanying consolidated statement of operations as nonoperating expense.

This liability is measured at fair value on a recurring basis using Level 3 fair value measurements. Specifically, the Company has estimated the fair value using a Monte Carlo simulation that is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. Changes to contingent consideration obligations can result from movements in publicly traded stock prices of IVST, adjustments to discount rates, expected stock price volatility, estimated dividend rates, estimated counterparty risk, periods, and updates in the assumed achievement or timing of exceeding any target stock price. The assumptions related to determining the value of a contingent consideration include a significant amount of judgment, and any changes in the assumptions could have a material impact in any given period. In determining the fair value, the Company used the following significant unobservable inputs:

- Expected stock price volatility - 75 percent
- Risk-free interest rate - Ranges from 1.89 percent to 3.19 percent
- Counterparty credit risk (discount rate) - 30 percent
- Dividend rate - 0 percent

The following table reconciles the opening and closing balance of the stock guarantee liability for 2018. There was no activity in 2017.

| Acquiree | Fair Value | | | Fair Value Adjust | Fair Value |
|---------------------------|-----------------|---------------------|---------------------|-------------------|---------------------|
| | January 1, 2018 | Amounts Recogn | December 31, 2018 | | |
| Chagrin Safety Supply | \$ - | \$ 139,000 | \$ 90,000 | \$ - | \$ 229,000 |
| Shepherd Energy | - | 1,000,000 | 1,470,000 | - | 2,470,000 |
| Contact Source Solutions | - | 500,000 | 560,000 | - | 1,060,000 |
| H.P. Technologies | - | 600,000 | 20,000 | - | 620,000 |
| Authority National Supply | - | 1,700,000 | 120,000 | - | 1,820,000 |
| Midwest Curtain Walls | - | 600,000 | (30,000) | - | 570,000 |
| Midwest Curtain Walls | - | 150,000 | - | - | 150,000 |
| | <u>\$ -</u> | <u>\$ 4,689,000</u> | <u>\$ 2,230,000</u> | <u>\$ -</u> | <u>\$ 6,919,000</u> |

On March 18, 2019, the Company entered an agreement to issue 1,500,000 restricted common shares in exchange for the cancellation of the stock guarantee related to the Shepherd Energy, LLC acquisition, whereby the 5,790,000 shares were guaranteed to have a trading value of \$1 per share by December 2019. This share issuance settles a stock liability of \$2,470,000 at December 31, 2018.

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

Note 17 - Related Party Transactions

The officers and directors of the Company are involved in other business activities. They may face a conflict of interests between the Company and other business interests. The Company has not formulated a policy to address such conflicts.

TN3, LLC is a company owned and controlled by the Company's chairman and CEO, Daniel Martin. TN3, LLC is also a significant shareholder of IVST. As of December 31, 2017, there was a loan payable to TN3, LLC, which was paid off in 2018, as described in Note 9.

Note 18 - Retirement Plans

Midwest Curtain Walls sponsors a 401(k) plan for substantially all employees who meet certain age and length of service requirements. The plan allows for the Company to make a discretionary matching contribution. There were no contributions made by the Company to the plan in 2018 or 2017.