

MANAGEMENT
RESPONSIBILITY
FOR FINANCIAL
REPORTING

The management of Inventronics Limited is responsible for preparing the financial statements, the notes to the financial statements, and other financial information contained in this Annual Report. The financial statements are prepared in accordance with generally accepted accounting principles consistently applied and necessarily include certain amounts requiring estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements fairly present, in all material respects, the Company's financial position.

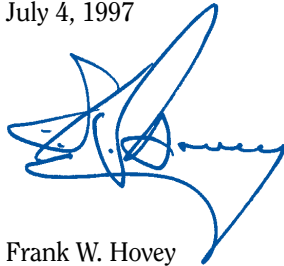
Management in fulfilling its responsibilities has developed and maintained a system of internal accounting controls designed to provide reasonable assurance that Company assets are appropriately accounted for and adequately safeguarded and that the financial information is relevant, reliable, and accurate.

The Board of Directors are responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, all of whom are independent directors.

The Audit Committee meets regularly with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The shareholders' auditors have full access to the Audit Committee, with and without the presence of management. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The financial statements have been audited by Ernst & Young, Chartered Accountants, the shareholders' auditors. Their report outlines the scope of their examination and their opinion on the financial statements.

July 4, 1997



Frank W. Hovey
Chief Executive Officer



Larry G. Brownoff, CA
Vice-President, Finance & Administration

AUDITORS'
REPORT

TO THE SHAREHOLDERS OF INVENTRONICS LIMITED

We have audited the balance sheets of Inventronics Limited as at 31 May 1997 and 1996 and the statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at 31 May 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

July 4, 1997
Edmonton, Canada



Ernst & Young, Chartered Accountants

INVENTRONICS
LIMITED

**BALANCE
SHEETS**

As at 31 May
in thousands of dollars

	1997 \$	1996 \$
ASSETS		
CURRENT		
Cash	906	1,492
Accounts receivable [note 2]	2,124	3,183
Inventories [note 3]	2,327	3,081
Income taxes recoverable	389	-
Prepaid expenses	222	147
	5,968	7,903
CAPITAL ASSETS [note 4]	4,469	2,966
	10,437	10,869
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued charges	2,387	3,139
Income taxes payable	-	869
Current portion of obligations under capital lease [note 5]	87	-
	2,474	4,008
OBLIGATIONS UNDER CAPITAL LEASE [note 5]	918	-
DEFERRED GOVERNMENT ASSISTANCE [note 7]	276	315
DEFERRED INCOME TAXES	550	519
	4,218	4,842
COMMITMENTS [note 5]		
SHAREHOLDERS' EQUITY		
Share capital [note 8]	2,305	2,295
Retained earnings	3,914	3,732
	6,219	6,027
	10,437	10,869

See accompanying notes

On behalf of the Board:



BRIAN M. KING, DIRECTOR



FRANK W. HOVEY, DIRECTOR

**INVENTRONICS
LIMITED**

**STATEMENTS
OF INCOME &
RETAINED
EARNINGS**

Years ended 31 May
in thousands of dollars, except per share data

	1997 \$	1996 \$
SALES	16,119	16,686
COSTS AND EXPENSES		
Cost of sales and operating expenses	15,410	13,683
Depreciation and amortization	421	415
Interest expense (income)		
Short term	(23)	(25)
Long term	7	-
	15,815	14,073
INCOME BEFORE INCOME TAXES	304	2,613
Income taxes <i>[note 9]</i>		
Current	91	959
Deferred	31	62
	122	1,021
NET INCOME FOR THE YEAR	182	1,592
RETAINED EARNINGS, BEGINNING OF YEAR	3,732	2,141
Net income for the year	182	1,592
Purchase premium of cancelled acquired shares <i>[note 8]</i>	-	(1)
RETAINED EARNINGS, END OF YEAR	3,914	3,732
EARNINGS PER SHARE		
BASIC (weighted average number of shares 2,531,459 (1996; 2,320,070))	0.07	0.69
FULLY DILUTED	0.07	0.63

See accompanying notes

**INVENTRONICS
LIMITED**

**STATEMENTS
OF CHANGES
IN FINANCIAL
POSITION**

Years ended 31 May
in thousands of dollars

	1997 \$	1996 \$
OPERATING ACTIVITIES		
Net income for the year	182	1,592
Items not involving cash <i>[note 10]</i>	350	425
Changes in non-cash working capital balances <i>[note 11]</i>	(272)	(704)
	260	1,313
FINANCING ACTIVITIES		
Issuance of common shares <i>[note 8]</i>	10	228
Obligations under capital lease incurred	1,018	-
Repayment of obligations under capital lease	(13)	-
	1,015	228
INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	74	4
Acquisition of capital assets	(1,935)	(187)
	(1,861)	(183)
INCREASE (DECREASE) IN CASH	(586)	1,358
Cash, beginning of year	1,492	134
CASH, END OF YEAR	906	1,492

See accompanying notes

31 May 1997

in thousands of dollars, unless otherwise specified

1. SIGNIFICANT ACCOUNTING POLICIES

The Company designs, engineers and manufactures advanced technology enclosures, casings and assemblies for the telecommunications, electrical-utility, computer and business equipment industries. The measurement of certain assets and liabilities is dependent upon future events therefore the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using careful judgments which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader to evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

INVENTORIES

Finished goods and work in process are stated at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw material, direct labour costs, and applicable direct variable production overheads. Raw materials are stated at the lower of cost, generally determined on a first-in, first-out basis, and replacement cost.

CAPITAL ASSETS

Capital assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the estimated useful life for each asset, with the amortization period not to exceed the following:

Buildings	- 40 years
Machinery and equipment	- 15 to 20 years
Computer equipment	- 5 years
Leasehold improvements	- term of lease

LEASES

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incident to ownership of property are accounted for as capital leases. Assets acquired under capital leases are amortized on a straight-line basis over the estimated life of the asset or the lease term as appropriate. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

GOVERNMENT ASSISTANCE

The Company periodically applies for financial assistance under available government incentive programs. Government assistance relating to capital expenditures is recorded as deferred income and amortized on the same basis as the related capital assets are depreciated. Government assistance relating to research and development expenditures and other current expenses is recorded as a reduction of the corresponding expenses.

INCOME TAXES

The tax allocation method of accounting is followed whereby the income tax provision is based on the income reported in the accounts. Under this method, full provision is made for income taxes deferred as a result of claiming expenses for income tax purposes on a different basis than for accounting purposes.

EARNINGS PER SHARE

Earnings per share is calculated using a weighted average number of shares outstanding during the year.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses in foreign currency are translated at approximate exchange rates prevailing at the time the transaction occurred. Exchange gains and losses are included in income.

ACQUIRED SHARES

The Company periodically purchases its shares through a Normal Course Issuer Bid. The shares are subsequently cancelled upon receipt by the Company's transfer agent. Upon cancellation, the average issue price is charged to share capital and any premium is charged to retained earnings.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed.

31 May 1997
in thousands of dollars, unless otherwise specified

2. ACCOUNTS RECEIVABLE

While the Company sells its products to many customers, three customers represent 70% of the accounts receivable year end balance. In 1996, these three customers accounted for 64% of the year end balance.

3. INVENTORIES

	1997 \$	1996 \$
Finished goods	801	977
Work-in-progress	248	1,074
Raw materials	1,278	1,030
	2,327	3,081

4. CAPITAL ASSETS

	1997		1996	
	Cost \$	Accumulated Depreciation \$	Cost \$	Accumulated Depreciation \$
Land	6	-	6	-
Building	1,369	418	1,369	381
Machinery and equipment	4,544	1,686	3,518	1,808
Computer equipment	962	654	882	632
Leasehold improvements	445	99	95	83
	7,326	2,857	5,870	2,904
Net book value	4,469		2,966	

Included in machinery and equipment are assets acquired under a capital lease at a cost of \$1,018 with accumulated depreciation of \$9.

5. OBLIGATIONS UNDER CAPITAL LEASE

Obligations under capital lease bears interest at a rate of 7.85% per annum. Future minimum lease payments required under capital lease and operating leases for buildings and equipment as at 31 May 1997 are approximately as follows:

	Capital \$	Operating \$	Total \$
1998	162	360	522
1999	162	345	507
2000	162	316	478
2001	162	305	467
2002	658	296	954
Thereafter	-	2,837	2,837
	1,306	4,459	5,765
Amount representing interest	301	-	301
	1,005	4,459	5,464

In May 2002, the Company has an option to purchase the equipment under capital lease or refinance the remaining balance of the lease obligation of \$509.

6. BANK INDEBTEDNESS

At 31 May 1997 the Company had available but was not using a revolving loan facility due on demand that is allowed to revolve freely within its authorized limit of \$2,800 subject to certain asset coverage. It may be converted, at the option of the bank or the Company, into a five year term loan with equal monthly payments and either a fixed or floating interest rate. At 31 May 1997 the Company had available, but was not using, a \$1,500 revolving bank credit line for operating purposes. As collateral for these banking facilities, the Company has pledged a fixed and floating charge on inventory, land, building, machinery and equipment, and an assignment of accounts receivable and has agreed that it will not declare dividends without the bank's consent.

31 May 1997

in thousands of dollars, unless otherwise specified

7. DEFERRED GOVERNMENT ASSISTANCE

	1997	1996
	\$	\$
Balance, beginning of year	315	365
Less: amortized to income during year	(39)	(50)
Balance, end of year	276	315

In prior periods, the Company received assistance from the Federal Government for the purpose of acquiring capital assets. Over a period of time, certain conditions must continue to be met in order to retain the assistance of \$248 received in prior periods. Government assistance of \$63 (1996; \$5) relating to current expenses was received in the year.

8. SHARE CAPITAL AND OPTIONS

Authorized, an unlimited number of common shares.

	1997		1996	
	Number of Shares	\$ (000's)	Number of Shares	\$ (000's)
Issued and outstanding	2,532,770	2,305	2,522,770	2,295

During the 1996 fiscal year, the Company acquired 900 common shares for cancellation under Normal Course Issuer Bid programs which expired on June 17, 1995. The cancellation of 2,000 shares in 1996 acquired under the Issuer Bids resulted in a premium of \$1 paid over the average issue value being charged to retained earnings.

The Company has granted options to purchase common shares to certain officers and directors. The option prices were based on the market value at the dates the options were granted.

The following options to purchase common shares were outstanding as at May 31:

Expiry date	Option price per share	Number of Shares	
	\$	1997	1996
December 31, 1999	1.00	-	10,000
July 24, 2005	6.60	50,000	-
		50,000	10,000

All options vest at a rate of 20% per year and expire on the earlier of July 24, 2005 or termination of services. The Company has entered into an agreement to provide an officer options to acquire 125,000 common shares subject to grant by the Board of Directors.

Stock option transactions for the respective years were as follows:

	Number of Shares	
	1997	1996
Outstanding, beginning of year	10,000	98,000
Granted	70,000	140,000
Exercised	(10,000)	(218,000)
Expired	(20,000)	(10,000)
	50,000	10,000

During the year, options for 10,000 shares at an exercise price of one dollar per share were exercised resulting in the receipt of \$10.

During the 1996 year, options for 140,000 shares at an exercise price of one dollar per share were awarded to certain officers. Cash of \$228 was received on exercise of options during the 1996 year.

31 May 1997
in thousands of dollars, unless otherwise specified

**INVENTRONICS
LIMITED**

9. INCOME TAXES	1997	1996
	\$	\$
Income taxes at Canadian Statutory rates (including provincial taxes)	116	999
Differences from statutory rates relating to:		
Expenses not deductible for tax purposes	5	3
Other	1	19
Income tax provision	122	1,021

The Company has allowable capital losses of approximately \$145 available to offset future taxable capital gains, the benefit of which has not been recorded in the accounts.

10. ITEMS NOT INVOLVING CASH	1997	1996
	\$	\$
Depreciation and amortization	421	415
Deferred income taxes	31	62
Amortization of deferred government assistance	(39)	(50)
Gain on disposal of capital assets	(63)	(2)
	350	425

11. CHANGES IN NON-CASH WORKING CAPITAL BALANCES	1997	1996
	\$	\$
Accounts receivable	1,059	(1,359)
Inventories	754	(1,298)
Prepaid expenses	(75)	(99)
Accounts payable and accrued charges	(752)	1,082
Income taxes payable/recoverable	(1,258)	970
	(272)	(704)

12. SALES TO A MAJOR CUSTOMER

A significant portion of the Company's sales were to, or made with the assistance of, a major international customer. This diversified, multinational company has been a customer of the Company for 20 years and management is of the opinion that this relationship will continue.

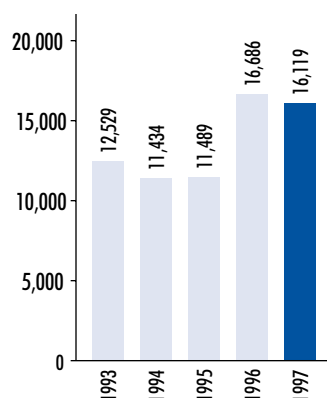
13. SEGMENTED INFORMATION

The Company's principal business activity is engineering, design and manufacturing of advanced technology enclosures, casings, and assemblies for the telecommunications, electrical-utility, computer and business equipment industries. All of the Company's operations, employees and assets are located in Canada. Sales to customers in foreign countries amounted to \$12,318 in 1997 (1996; \$12,387).

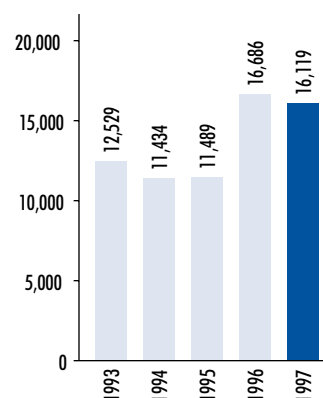
**FIVE YEAR
FINANCIAL
SUMMARY**

dollars in thousands except per share and shares outstanding figures

SALES \$ (thousands)



REVENUE \$ (thousands)



	1993	1994	1995	1996	1997
		(1)	(1)		
PERFORMANCE STATISTICS					
Net earnings (loss) as a % of sales	1.3%	-2.8%	-4.3%	9.5%	1.1%
Sales/Assets ratio	1.3	1.2	1.6	1.5	1.5
Return (loss) on shareholders' equity (2)	3.2%	-6.5%	-10.9%	31.1%	3.0%
COMMON SHARE DATA					
Earnings (loss) per share (Fully Diluted)	\$0.07	(\$0.13)	(\$0.21)	\$0.63	\$0.07
Dividends per share	—	—	—	—	—
Book value per share	\$2.15	\$2.13	\$1.82	\$2.39	\$2.46
Shares outstanding at year end	2,380,370	2,328,070	2,305,670	2,522,770	2,532,770
Working capital	\$3,261	\$2,851	\$1,833	\$3,895	\$3,494
Current ratio	2.9	2.7	1.9	2.0	2.4
Net capital assets	\$3,765	\$3,498	\$3,196	\$2,966	\$4,469
Shareholders' equity	\$5,125	\$4,726	\$4,207	\$6,027	\$6,219

(1) Restated to conform with presentation adopted in 1996.

(2) Based on net earnings (loss) and average opening and closing equity.