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# Innovest Global, Inc.

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## **Consolidated Financial Report (unaudited)**

**March 31, 2020 and 2019**

**Consolidated Financial Statements (unaudited)**

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## Consolidated Balance Sheet (unaudited)

	March 31,	
	2020	2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 20,935	\$ 658,889
Accounts receivable, net	2,567,865	9,804,264
Inventory	558,671	28,184
Cost in excess of billings	45,682	-
Prepaid expenses and other current assets	81,231	58,499
<b>Total current assets</b>	<b>3,274,384</b>	<b>10,549,836</b>
Property and equipment, net	305,054	355,719
Goodwill	4,745,476	5,453,551
Intangible assets, net	1,462,468	492,101
Investment	-	141,742
Right-of-use assets, net	3,506,120	698,370
<b>Total assets</b>	<b>\$ 13,293,502</b>	<b>\$ 17,691,319</b>

See notes to consolidated financial statements.

# Consolidated Balance Sheet (unaudited)

	March 31,	
	2020	2019
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 3,538,927	\$ 9,456,304
Billings in excess of cost and estimated earnings	669,537	864,259
Bank line of credit	723,970	348,640
Notes payable	99,566	119,164
Deposit on assets	545,462	437,500
Accrued compensation	718,903	558,431
Deferred compensation	198,750	48,750
Accrued expenses	83,055	23,041
Lease liabilities, current	193,836	118,648
Other current liabilities	180,465	70,362
Total current liabilities	6,952,471	12,045,099
Lease liabilities, non-current	3,573,030	557,646
Shareholder loan payable	349,300	-
Stock guarantee liability	8,118,000	4,449,000
Share issuance liability	900,000	750,000
Bond contingencies	12,409,806	-
Other non-current liabilities	25,518	47,944
Total liabilities	32,328,125	17,849,689
<b>Stockholders' Equity (Deficit)</b>		
Common stock, par value \$0.001 per share:		
Authorized shares: 500,000,000 in 2020 and 2019		
Issued and outstanding shares: 163,802,125 at March 31, 2020 and 142,910,292 at March 31, 2019	163,802	142,910
Preferred stock, par value \$0.001 per share:		
Authorized shares: 10,000,000 in 2020 and 2019		
Issued and outstanding shares: 1,250,000 at March 31, 2020 and March 31, 2019	1,250	1,250
Additional paid-in capital	6,076,530	3,965,806
Retained deficit	(25,276,205)	(4,268,336)
Total stockholders' equity (deficit)	(19,034,623)	(158,370)
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 13,293,502</b>	<b>\$ 17,691,319</b>

See notes to consolidated financial statements.

## Consolidated Statement of Operations (unaudited)

	Quarter Ended March 31,	
	2020	2019
Revenues	\$ 3,545,228	\$ 12,481,018
Cost of goods sold	1,990,476	11,854,636
Gross profit	1,554,752	626,382
Operating Expenses		
Selling, general & administrative expense	1,925,428	1,348,846
Stock compensation expense	291,000	307,300
Other operating expense (income), net	(1,799)	(28,095)
Operating income (loss) from continuing operations	(659,877)	(1,001,669)
Gain on investment	(83,258)	-
Interest expense, net	58,516	5,011
Loss on sale of assets	-	105,000
Fair value adjustment to stock guarantee, net	-	(1,991,650)
Income (loss) from continuing operations before provision (benefit) for income taxes	(635,135)	879,970
Provision (benefit) for income taxes	-	-
<b>Net income (loss) attributable to Innovest Global, Inc.</b>	<b>\$ (635,135)</b>	<b>\$ 879,970</b>
Earnings loss per share - Basic	\$ (0.00)	\$ 0.01
Earnings loss per share - Diluted	\$ (0.00)	\$ 0.01
Weighted-average number of shares outstanding - Basic	163,802,125	142,910,292
Weighted-average number of shares outstanding - Diluted	163,802,125	142,910,292

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Stockholders' Equity (Deficit) (unaudited)

	Shares of Common Stock	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Total
<b>Balance - January 1, 2020</b>	<b>149,097,292</b>	<b>\$ 149,097</b>	<b>\$ 1,250</b>	<b>\$ 5,352,645</b>	<b>\$ (24,641,070)</b>	<b>\$ (19,138,078)</b>
Consolidated net loss		-	-	-	(635,135)	(635,135)
Stock compensation expense	3,350,000	3,350	-	287,650	-	291,000
Issuance of common shares for services	500,000	500	-	87,000	-	87,500
Issuance of common shares for customer marketing programs	854,833	855	-	134,360	-	135,215
Issuance of common shares for debt payoff	10,000,000	10,000	-	214,875	-	224,875
<b>Balance - March 31, 2020</b>	<b>163,802,125</b>	<b>\$ 163,802</b>	<b>\$ 1,250</b>	<b>\$ 6,076,530</b>	<b>\$ (25,276,205)</b>	<b>\$ (19,034,623)</b>

	Shares of Common Stock	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Total
<b>Balance - January 1, 2019</b>	<b>141,050,292</b>	<b>\$ 141,050</b>	<b>\$ 1,250</b>	<b>\$ 3,432,969</b>	<b>\$ (5,148,306)</b>	<b>\$ (1,573,037)</b>
Consolidated net loss		-	-	-	879,970	879,970
Stock compensation expense	700,000	700	-	306,600	-	307,300
Issuance of common shares for acquisitions	1,000,000	1,000	-	149,000	-	150,000
Stock subscriptions collected	160,000	160	-	77,237	-	77,397
<b>Balance - March 31, 2019</b>	<b>142,910,292</b>	<b>\$ 142,910</b>	<b>\$ 1,250</b>	<b>\$ 3,965,806</b>	<b>\$ (4,268,336)</b>	<b>\$ (158,370)</b>

See notes to consolidated financial statements.

## Consolidated Statement of Cash Flows (unaudited)

	Quarter Ended March 31,	
	2020	2019
Net income (loss) attributable to Innovest Global, Inc.	\$ (635,135)	\$ 879,969
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	64,601	56,032
Fair value adjustment for stock guarantee	-	(2,470,000)
Non-cash gain on StemVax investment	(83,258)	-
Stock compensation expense	291,000	307,300
Financing charges on deposit of asset	224,875	98,000
Non-cash lease expense	68,422	88,115
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(294,293)	(4,358,199)
Inventory	2,377	4,274
Prepaid expenses and other assets	(37,227)	96,856
Accounts payable	(415,907)	5,207,668
Accrued and other liabilities	252,643	350,507
Operating lease liability	(40,988)	(110,274)
Billings in excess of costs and estimated earnings	(2,049,942)	(659,565)
<b>Net cash used in operating activities</b>	<b>(2,652,832)</b>	<b>(509,317)</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(7,427)	(6,451)
<b>Net cash provided by (used in) investing activities</b>	<b>(7,427)</b>	<b>(6,451)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from bond contingency	1,622,196	-
Proceeds from asset backed financing	-	339,500
Proceeds from (payments on) notes payable	374,407	(19,420)
Proceeds from shareholder loan	18,000	-
Proceeds from stock issuance	-	50,050
<b>Net cash provided by (used in) financing activities</b>	<b>2,014,603</b>	<b>370,130</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(645,656)</b>	<b>(145,638)</b>
<b>Cash and Cash Equivalents - Beginning of period</b>	<b>666,591</b>	<b>804,527</b>
<b>Cash and Cash Equivalents - End of period</b>	<b>\$ 20,935</b>	<b>\$ 658,889</b>
<b>Supplemental disclosure of cash flow information:</b>		
Intangible assets acquired from Primary Metering acquisition	\$ -	\$ 150,000
Intangible assets acquired from StemVax acquisition	1,125,000	-
Restricted common shares issued in connection with funding agreement	224,875	-
Interest paid	(53,179)	(5,011)
	-	-

See notes to consolidated financial statements.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

### Note 1 - Nature of Business

Innovest Global, Inc. (the "Company", "Innovest", "Innovest Global", 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 were changed to Innovest as a diversified industrials company with biotechnology holdings.

Innovest Global is a diversified industrials company providing value-added solutions across multiple business sectors. The Company is reported into six segments detailed below:

**Energy Solutions:** The Energy Solutions reportable segment provides an all-in-one offering of procurement and efficiency solutions for commercial and industrial customers including LED lighting and retrofits. This segment includes the operations of the previously acquired Shepherd Energy Solutions and Primary Metering Systems.

**Energy Brokerage:** The Energy Brokerage reportable segment provides competitive electricity and natural gas purchase programs for residential and commercial consumers, while giving energy suppliers the opportunity to extend special offers and savings to potential new customers. This segment includes the operations of H.P. Technologies, Inc ("H.P. Technologies").

**Call Center Services:** The Call Center Services reportable segment offers inbound and outbound call services on a short or long-term basis customized to client needs. This segment includes the operations of Contact Source Solutions, LLC ("Contact Source", "Contact Source Solutions").

**Building Solutions:** The Building Solutions reportable segment designs, engineers, tests and assembles curtainwall systems or other building solutions used in large custom construction projects. This segment includes the operations of Midwest Curtainwalls, Inc. ("Midwest Curtainwalls").

**Wholesale Purchasing:** The Wholesale Purchasing reportable segment is a national distributor of roofing, windows, fasteners and associated tools and accessories. This segment includes the operations of Authority National Supply which was established to create purchasing power amongst a group of independent building material providers by obtaining discounts from suppliers based on the collective buying power of its members.

**Other:** The remaining businesses and Corporate activities of Innovest are reported within the Other reportable segment. This reportable segment consists of the activities of Chagrin Safety Supply, LLC ("Chagrin Safety") and Innovest Global Corporate spending.

We have also made a strategic investment in a cutting-edge biotechnology company called StemVax that is developing novel therapies for brain tumor patients.

### Note 2 – Significant Accounting Policies

#### ***Basis of Presentation***

The consolidated financial statements include the accounts of the Company and all wholly owned subsidiaries (collectively, the "Company"). All intercompany accounts and transactions have been eliminated in consolidation. All subsidiaries that are not wholly owned and are not included in the consolidated operating results of the Company are immaterial investments which have been accounted for under the equity or cost method. The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the timing and amount of assets, liabilities, equity, revenues, and expenses recorded and disclosed. Actual results could differ from those estimates.

Certain items and amounts have been reclassified from the prior year presentation to the current year presentation for consistency purposes. These items include stock compensation expense, goodwill impairments, depreciation and amortization expense and other operating income / expense.



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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

### ***Going Concern***

As of March 31, 2020, the Company had a stockholders' deficit of \$19 million, and as of March 31, 2019 the deficit was \$158 thousand. For the quarter ended March 31, 2020, the Company had a loss of \$635 thousand and used net cash of \$2.7 million in operating activities. For the quarter ended March 31, 2019, the Company recognized net income of \$880 thousand and used net cash of \$489 thousand in operating activities.

The Company's consolidated financial statements are prepared assuming that the Company will continue as a going 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.

Management plans to increase cash flow by acquiring and/or developing profitable businesses that will create positive income from operations, obtaining debt through loans from outside parties, and/or issuing common shares. In late 2019, the company filed an application to up list its shares from the OTC pink slip platform to the OTC QB platform in an attempt to reach a broader base of institutional investors. In January 2020, the Company signed an agreement with a third-party investor to pay off the remaining balances on the deposit on asset liens in exchange for shares of the Company's stock. Additionally, the Company filed an initial [Form 10 registration statement on April 17, 2020](#) and plans to refile the statement in mid-2020 after the audit is completed. Once the Form 10 registration statement is effective, the company will be an SEC registrant and have the ability to issue free trading shares as a means to raise capital and further support the business.

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.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

### ***Cash and Cash Equivalents***

The Company considers all investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

### ***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***

Trade accounts receivable are customer obligations due under normal trade terms generally requiring payments within 30 days from the invoice date or as specified in the Company's long-term contracts (with the exception of a standard retainage held for typically one month from job completion). The Company does not charge interest on past due accounts receivable invoices.

Accounts receivable are stated at net invoice amounts. As of March 31, 2020, \$1.9 million of the outstanding accounts receivable balance is from a single customer in the Building Solutions segment and the receivable from the same customer represented \$2.3 million of the outstanding accounts receivable balance as of March 31, 2019. This particular outstanding account receivable has been pledged in support of the bond agreement with Zurich American Insurance Company ("Zurich"), see details in Note 10. 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.

Within the Accounts receivable balance, the Company has recorded \$44,010 in unbilled receivables as of March 31, 2020. These amounts were subsequently billed and collected.

### ***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentration of credit risk primarily consist of trade accounts receivable. The concentration of accounts receivable credit risk is generally limited based on the Company's diversified operations, with customers spread across our various end markets. In addition, management has established certain requirements that customers must meet before credit is extended. The financial condition of customers is continually monitored, and collateral is usually not required. The Company evaluates the collectability of accounts receivable based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific allowance for doubtful accounts is recorded against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. Additionally, the Company also reviews historical trends for collectability in determining an estimate for its allowance for doubtful accounts. If economic circumstances change substantially, estimates of the recoverability of amounts due the Company could be reduced by a material amount.

### ***Inventory***

Inventory is stated at the lower of cost or net realizable value. Inventory primarily 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.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

### ***Property and Equipment***

Property and equipment acquired through acquisitions are recorded at fair value less accumulated depreciation and amortization. All other property and equipment are recorded at cost less accumulated depreciation and amortization. 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. The Company reviews its Property and Equipment assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Determination of potential impairment related to assets to be held and used is based upon undiscounted future cash flows resulting from the use and ultimate disposition of the asset and related asset group. For assets held for sale, the amount of potential impairment may be based upon appraisal of the asset, estimated market value of similar assets or estimated cash flow from the disposition of the asset.

### ***Goodwill***

Goodwill is the excess of the Company's consideration over the fair value of tangible and identified intangible net assets acquired in various business combinations. Goodwill is not amortized, but rather is assessed at least on an annual basis, at December 31, 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. Such assessment can be done on a qualitative or quantitative basis. When conducting a qualitative assessment, we consider relevant events and circumstances that affect the fair value or carrying amount of the reporting unit. Our reporting units for the purposes of goodwill valuation are one level below the reportable segment level based on the operating businesses. A quantitative assessment is required only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount, or we elect not to perform a qualitative assessment of a reporting unit. We consider the extent to which each of the events and circumstances identified affects the comparison of the reporting unit's fair value or the carrying amount. Such events and circumstances could include macroeconomic conditions, industry and market considerations, overall financial performance, entity and reporting unit specific events, product brand level specific events and cost factors. We place more weight on the events and circumstances that may affect the determination of whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. These factors are all considered by management in reaching its conclusion about whether to perform a quantitative goodwill impairment assessment. Goodwill impairment charges are recorded for the amount by which the carrying value of the reporting unit exceeds its fair value. We use an independent valuation specialist to assist with refining our assumptions and methods used to determine fair values using these methods.

During 2019, management recognized an impairment loss of \$708,075 for the remaining value of the Midwest Curtainwalls goodwill as a result of the significant losses incurred on the legacy contract inherited, which impacted the fair value considerations of expected future cash inflows.

### ***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 at December 31. Determination of potential impairment related to assets to be held and used is based upon undiscounted future cash flows resulting from the use and ultimate disposition of the asset and related asset group. For assets held for sale, the amount of potential impairment may be based upon appraisal of the asset, estimated market value of similar assets or estimated cash flow from the disposition of the asset. Intangible assets consist of trade names and customer lists which are amortized over 15 years as well as the most recent acquisition of the StemVax technology which has been classified as an in-process research and development technology asset. The StemVax asset will be amortized over the remaining life of the underlying patent which has just over 14 years remaining.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

### ***Revenue Recognition***

The Company's revenue is derived primarily from the sales, services, design and fabrication of custom products. These revenue streams are described below relative to each reportable segment. Contracts are generally accounted for as a single unit of account (a single performance obligation) and are not segmented between types of sales. In situations where there are multiple performance obligations, the Company allocates the transaction price to each performance obligation identified in the contract on a relative standalone selling price basis. The transaction price is allocated to the performance obligation based on the terms outlined in the contract. The nature of the Company's contracts occasionally gives rise to certain types of variable consideration, including award and incentive programs, prompt payment discounts, rebates and estimated pricing based on expected future usage. The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company estimates the amount of revenue to be recognized on variable consideration using the expected value (i.e., the sum of the probability-weighted amounts) or the most likely amount method, whichever is expected to better predict the amount.

The Company has elected the following practical expedients and policy elections available under ASC 606: (1) incremental costs of obtaining a contract are expensed when the amortization period is one year or less; (2) all shipping and handling activities are accounted for as activities to fulfill the promise to transfer the good, not as a separate performance obligation; (3) and in situations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date, the Company recognizes revenue in the amount to which the entity has a right to invoice.

### ***Energy Solutions and Building Solutions***

Within the Energy Solutions and Building Solutions segments, the Company has performance obligations for providing lighting and installation services (energy projects) and curtainwall design, fabrication and installation services (building projects). The Company generally enters into these agreements directly with its customers and has determined they are the principal in all of these current contracts. These services qualify for over time revenue recognition as a) the customer either simultaneously receives or consumes the benefits of the services or b) represents contracts in which the performance obligations create a customized asset on behalf of the customer and do not create an asset with an alternative use to the Company. Additionally, management has determined that the Company has an enforceable right to payment for performance completed to date. That right is evidenced in the formal contract with its customer. Management has determined that together, the formal contract and customer purchase order reflect the complete terms of the agreement. The Company recognizes revenue over time on these contracts using the cost-to-cost method (an input method), whereby revenues are recorded on the basis of the Company's estimates of satisfaction of the performance obligation based on the ratio of actual costs incurred to total estimated costs. The cost-to-cost method is utilized because management considers it to be the best available measure of progress as the performance obligations are completed. The production cycle for customer contracts is generally three to six months for energy projects and 12 to 18 months for curtainwall projects. The Company uses standard, generally accepted payment terms, which are typically due within 30 days; customers typically pay upon completion of the service or when billed. A portion of amounts billed on curtainwall projects are held back as retainage and are generally paid upon project completion. Retainage is included within accounts receivables and amounted to \$915,304 as of March 31, 2020 and \$ 691,018 as of March 31, 2019. These retainage amounts are included in the receivables pledged to Zurich as part of the bond liability, see Note 10 for further details. There are no significant obligations for refunds or similar obligations.

Costs under the cost-to-cost method include all direct material, labor, and certain other direct costs, as well as those indirect costs that related to contract performance, such as indirect labor, quality control and inspection, rent, repairs & maintenance and depreciation. General and administrative costs are charged to expense as incurred. Revenue and cost estimates are regularly monitored and revised based on changes in circumstances. Impacts from changes in estimates of revenue and cost of revenue are recognized on a cumulative catch-up basis, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on the performance completed to date.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

Differences in the timing of revenue recognition, contractual billing, and payment terms result in recognition of contract assets and liabilities. Contract assets primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed (costs and estimated earnings in excess of billings on uncompleted contracts). Contract liabilities represent cash received that is in excess of revenues recognized (billings in excess of costs and estimated earnings on uncompleted contracts) and are contingent upon the satisfaction of performance obligations and reserves for anticipated losses on projects in production.

The Company offers standard, non-negotiable warranties to their customers. These warranties are not purchased separately and are offered to provide assurance against defective workmanship. The warranties are not considered a separate performance obligation.

### **Energy Brokerage**

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. The Company has determined they are acting as an agent in these transactions, as the performance obligation is to arrange for the provision of the specified good or service by another party. The commission revenues earned on these transactions are recorded at the net amount retained.

### **Call Center Services**

For call center services, the Company has performance obligations for providing staffing resources. These contracts are typically time and material arrangements. The amounts charged correspond directly to the value the customer receives. These arrangements qualify for the right to invoice practical expedient which allows revenue to be recognized based on the number of hours worked by the call center agents at the contracted bill rates. An invoice for payment is issued at the end of each month and terms generally range from due on receipt of invoice to net 30 days.

### **Wholesale Purchasing**

The Company distributes building supplies to vendors and leverages the purchasing power of the group to those participating. The Company recognizes revenue when the Company satisfies its performance obligation under the contract by transferring the promised product to the customer when the customer obtains control of the product. Consideration is typically due within 30 to 45 days after control is transferred. This generally happens at the point of shipment. 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.

### **Other**

For distributed part sales, the Company has a performance obligation to deliver goods in accordance with the terms and conditions of the contract. The Company recognizes revenue when the Company satisfies its performance obligation under the contract by transferring the promised product to the customer when the customer obtains control of the product. Consideration is typically due within 30 days after control is transferred. This generally happens at the point of shipment, or in some circumstances at the point of delivery. 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. There are no significant obligations for refunds or similar obligations.

### **Income Taxes**

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be received or settled. Any effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period the change is enacted.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

Deferred tax assets are reduced by a valuation allowance, if based on all available evidence, it is more likely than not that the deferred tax asset will not be realized. The Company evaluates the recovery of its deferred tax assets by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates.

In the ordinary course of business there is inherent uncertainty in quantifying certain income tax positions. The Company evaluates uncertain tax positions for all years subject to examination based upon management's evaluations of the facts, circumstances and information available at the reporting date. Income tax positions must meet a more-likely-than-not recognition threshold at the reporting date to be recognized. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

### **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 (Loss) 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 anti-dilutive and, thus, are excluded from the calculation. For the quarter ended March 31, 2020 there were 150,000 options issued under the Equity plan that were excluded from the computation of diluted earnings per share because they were anti-dilutive.

### **Stock Based Compensation**

The Company has stock incentive plans that grant stock-based compensation to employees and directors. Shares issued for option exercises, restricted stock units and performance units from an allocated pool of shares from the authorized shares. For equity-classified awards, the fair value is determined on the date of the grant and not remeasured. The fair value of restricted stock units is determined using the closing price of the Company's common stock on the grant date (Level 1 measurement). The fair value of options is determined using an option pricing model which uses market-based inputs (Level 2 measurement). Expense for all stock-based awards is recognized on a straight-line basis over the requisite service period, which is generally equivalent to the vesting term. Forfeitures result in reversal of previously recognized expenses for unvested shares and are recognized in the period in which the forfeiture occurs. See Note 16 for more information.

### **Shipping and Handling Costs**

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

### **Upcoming Accounting Pronouncements**

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance to improve consistent application. For the Company, this ASU is effective beginning with the first quarter of 2021. Early adoption is permitted. Certain amendments within this ASU are required to be applied on a retrospective basis, certain other amendments are required to be applied on a modified retrospective basis and all other amendments on a prospective basis. Adoption of this guidance is not expected to have a material impact on its consolidated financial statements.



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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). For the Company, the ASU is effective prospectively beginning with the first quarter of 2020. As the Company has not had and is not in process of implementing significant hosted software arrangements as of March 31, 2020, the adoption of this standard is not expected to have a material effect on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20)*. This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For the Company, the ASU is effective retrospectively beginning with the 2020 annual financial statements but is not applicable to its interim financial statements. Adoption of this guidance is not expected to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements on fair value measurements by removing, modifying, or adding certain disclosures. For the Company, the ASU is effective beginning with the first quarter of 2020. Certain disclosures in this ASU are required to be applied on a retrospective basis and others on a prospective basis. Adoption of this guidance is not expected to have a material impact on its consolidated financial statements.

### Note 3 - New Accounting Principles

#### **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, 2019 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. The Company early adopted the standard to account for its stock-based awards in order to simplify measurement processes as of January 1, 2018. See Note 16 for the impact this standard has on the financial statements.

#### **ASU No. 2016-02, *Leases (Topic 842)***

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

In February 2016, the FASB issued ASU 2016-02, *Leases*, which created ASC Topic 842, which supersedes existing guidance for accounting for leases under Topic 840, *Leases*. Under FASB ASC 842, a lessee recognizes in the statement of financial condition a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. FASB ASC 842 also requires that for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statement of income, while for operating leases, such amounts should be recognized as a combined expense. In addition, FASB ASC 842 requires expanded disclosures about the nature and terms of lease agreements.

The Company adopted the new guidance effective January 1, 2019, using the optional transition method, which required application of the new guidance to only those leases that existed at the date of adoption. The Company elected the “package of practical expedients”, which permitted the Company to not reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company used the discount rate corresponding to the remaining lease term at transition. Adoption of the new standard resulted in the recognition of right-of-use assets and lease liabilities of \$786,829 on January 1, 2019. The adoption did not have an impact to opening retained earnings (deficit) on January 1, 2019. The standard did not have a material impact on the Company’s consolidated results of operations or cash flows. See Note 14 for more information.



# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

## Note 4 – Business Combinations and Asset Acquisitions

### *Primary Metering Solutions*

On January 1, 2019, the Company acquired 100 percent of the assets of Primary Metering Solutions, LLC (Primary Metering Solutions), an Ohio-based company, and has classified this as an asset acquisition for reporting purposes. The primary reason for the acquisition was to allow the energy group the ability to directly provide metering solutions to clients, as this subsidiary has specialty knowledge on metering requirements and electrical contractor relationships. The purchase price consisted of shares of the Company's restricted common stock and cash.

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

Cash	\$ 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 shares trading near the time of acquisition.

Primary Metering Solutions is a startup company whereby Innovest Global purchased customer contracts from the business. Under the terms of the purchase agreement there were no other assets of the business acquired. The entire purchase price and related considerations were allocated to the customer contracts and presented in the Intangible assets line on the consolidated balance sheet.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

### Note 5 - Investment

On July 17, 2018, the Company acquired a 20 percent equity interest of StemVax Therapeutics (StemVax) for 2.5 million common shares of IVST and cash of \$16,742 related to the anticipated requirements of pending license agreements 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 have since been successfully executed. The investment was historically recorded as an investment in equity securities and was not accounted for using the equity method, as the Company did not have significant influence over the entity. The investment was recorded at \$141,742, which represented the cash investment 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.

On February 1, 2020, the Company acquired the remaining 80 percent of StemVax in exchange for 7.5 million warrants. The Company has concluded that the investment in StemVax is a business combination. The Company is currently in the process working on a final valuation of StemVax and has currently recorded a preliminary provisional amount. The fair value was allocated to an in-process research and development intangible asset related to the aforementioned technology and licenses. Due to the nature of the transactions the Company recorded the business combination as an acquisition achieved in stages or a step acquisition. This resulted in a gain of \$83,258 recorded in other income and expense on the statement of operations. The gain was the result of the difference in the book value of the StemVax investment previously recorded compared to the estimated fair value of the StemVax investment immediately prior to the acquisition date. The fair value was based on the warrants issued which were valued based on a Black-Sholes Model that uses weighted average assumptions, including actual transactions of the Company's stock occurring around the time the warrants were granted; expected volatility based on historical volatility of the Company and comparable, or guideline, public companies; the expected term of the warrants granted representing the period of time that warrants granted are expected to be outstanding, which takes into account the contractual term elements; a dividend yield; and a discount rate for periods within the contractual life of the warrant which is based on the U.S. Treasury yield curve in effect at the time the warrants were granted. Utilizing this model, the Company valued the warrants at \$900,000. The intangible technology asset recorded is deemed to have an estimated useful life of 14 years and 2 months based on the remaining life of the technology patent.

StemVax is expected to be spun out as a stand-alone public company from Innovest Global in mid-2020. By controlling the intellectual property and spinout, Innovest is expected to own a significant stake in the common stock of this forthcoming company. This investment in StemVax is expected to significantly contribute to the strength of Innovest's balance sheet, providing the company the opportunity to generate cash without shareholder dilution and/or pay shares as dividends directly to Innovest shareholders in the future.

## Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

### Note 6 - Property and Equipment

Property and equipment at March 31, 2020 and 2019, are summarized as follows:

	March 31,		Depreciable
	2020	2019	Life - Years
Machinery and equipment	289,666	\$289,666	9
Transportation equipment	8,950	8,950	2
Furniture and fixtures	63,113	63,113	3-10
Computer equipment and software	32,381	20,236	3-5
Total cost	<b>\$ 394,110</b>	<b>\$ 381,965</b>	
Accumulated depreciation	89,056	26,246	
Net property and equipment	<b>\$305,054</b>	<b>\$355,719</b>	

Depreciation expense for the quarters ended March 31, 2020 and March 31, 2019 was \$16,016 and \$20,682, respectively, which includes \$344 amortization of financing lease right-of-use asset.

### Note 7 - Acquired Intangible Assets and Goodwill

#### Intangible Assets

Intangible assets of the Company as of March 31, 2020 and 2019, are summarized as follows:

	March 31,	
	2020	2019
Intangible assets:		
Customer contracts	\$415,000	\$415,000
Trade names	131,000	131,000
In process R&D	1,125,000	-
Total intangible assets	<b>\$ 1,671,000</b>	<b>\$ 546,000</b>
Accumulated amortization	208,532	53,899
Net intangible assets	<b>\$ 1,462,468</b>	<b>\$ 492,101</b>

Amortization expense for the quarters ended March 31, 2020 and 2019 was \$48,585 and \$35,350, respectively. Anticipated amortization expense for the years ending December 31 is as follows:

<u>Years</u> <u>Ending</u>	<u>Amount</u>
2020	\$ 111,279
2021	104,145
2022	104,145
2023	104,145
2024	104,145
Thereafter	938,609
<b>Total</b>	<b>\$ 1,462,468</b>

# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

## Goodwill

Our reporting units for the purposes of goodwill valuation are based on the business units, one level below the segment reporting. The carrying amount of goodwill (by reportable segment) are as follows:

<u>Reportable Segment Goodwill Carrying Value</u>	<u>March 31,</u>	
	<u>2020</u>	<u>2019</u>
Energy Solutions	\$ 1,179,346	\$ 1,179,346
Energy Brokerage	267,890	267,890
Call Center Services	600,790	600,790
Building Solutions	-	708,075
Wholesale Purchasing	2,476,069	2,476,069
Other	221,381	221,381
<b>Total</b>	<b>\$ 4,745,476</b>	<b>\$ 5,453,551</b>

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 is estimated based on the present value of expected future cash inflows. For the quarters ended March 31, 2020 and 2019, there were no changes in goodwill carrying value of the reportable segments noted above.

## Note 8 - Line of Credit

Midwest Curtainwalls 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 4.1 and 4.5 percent at March 31, 2020 and December 31, 2019, respectively). The line of credit is collateralized by all assets of Midwest Curtainwalls. The balance outstanding on this line of credit was \$348,640 at March 31, 2020 and 2019.

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 was to be repaid in monthly principal payments of \$50,000 through August 2019 and a final payment of \$48,640 which was due in September 2019. These payments have not yet been paid and the company is currently finalizing settlement in 2020.

In February 2020, Innovest entered into a business line of credit agreement with Ponte Investments. Pursuant to the agreement, Ponte Investments provided Innovest with a \$500,000 revolving line of credit secured by a pledge of our assets. We are required to pay a loan fee each month equal to 6% of the outstanding principal balance for that month. We cannot draw more than 75% of the line without the approval of Ponte Investments. The line of credit matures on February 23, 2021. As of March 31, 2020, we had drawn \$375,330 on the line of credit.

# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

## Note 9 - Notes Payable

Notes payable at March 31 are as follows:

	2020	March 31, 2019
Midwest Curtainwalls - Notes payable to bank with interest ranging from 4.50 and 4.85 percent and secured by specific equipment	\$ 99,566	\$ 119,164
Innovest - Unsecured working capital note payable to a related party (TN3, LLC)	349,300	-
<b>Total</b>	<b>\$ 448,866</b>	<b>\$ 119,164</b>

Ownership transitions before the acquisition of Midwest Curtainwalls and the acquisition of Midwest Curtainwalls by Innovest have caused the note payable and the line of credit to be in default and remedied through a forbearance agreement entered into in January 2019. The note was 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. This payment has not yet been paid and the company is currently finalizing payments in 2020.

Total interest expense for the company the quarters ended March 31, 2020 and 2019 was \$58,516 and \$5,011, respectively.

## Note 10 - Contingencies

The Company is a defendant in various lawsuits and a party to various other legal proceedings arising in the ordinary course of business, some of which are covered in whole or in part by insurance. When a loss arising from these matters is probable and can be reasonably estimated, the most likely amount of the estimated probable loss is recorded, or if a range of probable loss can be estimated and no amount within the range is a better estimate than any other amount, the minimum amount in the range is recorded. As additional information becomes available, any potential liability related to these matters is assessed and the estimates revised, if necessary.

Based on current available information, management believes that the ultimate outcome of these matters, including those described below, will not have a material adverse effect on our financial position, cash flows or overall trends in our results of operations. However, these matters are subject to inherent uncertainties, and unfavorable rulings could occur. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the financial position and results of operations of the period in which the ruling occurs, or in future periods.

At the time of acquisition in December 2018, Midwest Curtainwalls had already entered into a sales contract for a large commercial project. For large contracts, Midwest Curtainwalls has historically been required by the general contractors of the construction projects to have a bond in place supporting the obligations of Midwest to the general contractor. The bonds are underwritten by an insurance company. For the large contract that Midwest had in place at the end of 2018 and into 2019, Midwest established a bond agreement with Zurich.

In July 2019, a dispute arose between Midwest Curtainwalls, the customer and subcontractors which resulted in the customer adjusting contract revenues while Midwest continued to incur costs. Midwest was still formally obligated to finish the contract but with the higher costs being incurred and lower receivables due to come in, the company could not support the payable requirements. Therefore, in August 2019, Midwest triggered the Funds Control Agreement as part of the bond in place with Zurich to allow the insurance company to take over payment of the costs on the project.

From August 2019, Zurich made payments to Midwest's vendors to cover outstanding payables and new costs as incurred. The liability to Zurich is presented as the bond contingencies of \$12,409,806 on the March 31, 2020 balance sheet. There is no interest on the bond contingency as the underlying financial instrument was an insurance policy and not a loan. Final settlement of this commitment is in process of being negotiated with Zurich.

# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

## Note 11 – Deposit on Assets

In order to achieve the working capital required to accommodate rapid growth, Innovest Global entered into arrangements to obtain cash deposits underwritten by liens on the accounts receivable balances of the Company and its subsidiaries. Innovest entered into transactions to receive deposits in advance of future receivables in exchange for a discount on balances to the funders. The payoff timeline was approximately four months. On January 6, 2020, the Company signed an agreement with a third-party investor to pay off the remaining balances on the liens in exchange for shares of the Company's stock. As amounts were paid off against the open liens, the remaining balance for the particular lender was offset against paid in capital on the balance sheet. As of March 31, 2020, the balance on these deposits was \$545,462.

## Note 12 - Revenue Recognition

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

Segments	Quarter ended March 31, 2020						Total
	Energy Solutions	Energy Brokerage	Call Center Services	Building Solutions	Wholesale Purchasing	Other	
Major goods/service lines:							
Goods	\$ 352,854	\$ 389,916	\$ -	\$ 2,205,565	\$ -	\$ 67,159	\$ 3,015,494
Services & Other	-	-	529,734	-	-	-	529,734
<b>Total Revenues</b>	<b>\$ 352,854</b>	<b>\$ 389,916</b>	<b>\$ 529,734</b>	<b>\$ 2,205,565</b>	<b>\$ -</b>	<b>\$ 67,159</b>	<b>\$ 3,545,228</b>
Timing of revenue recognition:							
Point in time	\$ 352,854	\$ -	\$ -	\$ 2,205,565	\$ -	\$ -	\$ 2,558,419
Over time	-	389,916	529,734	-	-	67,159	986,809
<b>Total Revenues</b>	<b>\$ 352,854</b>	<b>\$ 389,916</b>	<b>\$ 529,734</b>	<b>\$ 2,205,565</b>	<b>\$ -</b>	<b>\$ 67,159</b>	<b>\$ 3,545,228</b>

Segments	Quarter ended March 31, 2019						Total
	Energy Solutions	Energy Brokerage	Call Center Services	Building Solutions	Wholesale Purchasing	Other	
Major goods/service lines:							
Goods	\$ 730,772	\$ 424,315	\$ -	\$ 2,063,145	\$ 8,819,896	\$ 38,432	\$ 12,076,560
Services & Other	-	-	404,458	-	-	-	404,458
<b>Total Revenues</b>	<b>\$ 730,772</b>	<b>\$ 424,315</b>	<b>\$ 404,458</b>	<b>\$ 2,063,145</b>	<b>\$ 8,819,896</b>	<b>\$ 38,432</b>	<b>\$ 12,481,018</b>
Timing of revenue recognition:							
Point in time	\$ 730,772	\$ -	\$ -	\$ 2,063,145	\$ -	\$ -	\$ 2,793,917
Over time	-	424,315	404,458	-	8,819,896	38,432	9,687,101
<b>Total Revenues</b>	<b>\$ 730,772</b>	<b>\$ 424,315</b>	<b>\$ 404,458</b>	<b>\$ 2,063,145</b>	<b>\$ 8,819,896</b>	<b>\$ 38,432</b>	<b>\$ 12,481,018</b>

# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

## 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 quarters ended March 31, 2020 and 2019:

		<u>March 31,</u>	
	<u>2020</u>		<u>2019</u>
<b>January 1 Balance</b>	<b>\$ 2,679,847</b>	<b>\$</b>	<b>1,523,824</b>
Revenue recognized from continuing obligations from satisfaction of performance obligations	(2,234,442)		(315,934)
Additional costs incurred in billings	224,132		(343,631)
<b>March 31 Balance</b>	<b>\$ 669,537</b>	<b>\$</b>	<b>864,259</b>

Total contract liabilities decreased by \$2,010,310 and \$659,565 during the quarters ended March 31, 2020 and 2019 respectively. The 2020 decline was primarily due to recognition of revenue from the acceleration of the loss on the Midwest Curtainwalls contract in 2019. The 2019 decline was largely due to the timing of billings as compared to costs incurred in the period noted.

## Performance Obligations

Revenue that is expected to be recognized related to open performance obligations that have not been fully satisfied as of March 31, 2020 is \$714,870. This amount is expected to be realized during 2020.

For the quarter ended March 31, 2019, revenue that was expected to be recognized related to performance obligations that had not been fully satisfied was \$2,855,484.

# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

## Note 13 - Business Segment Information

Innovest Global reports its operating results into six segments which are below:

**Energy Solutions:** The Energy Solutions reportable segment provides an all-in-one offering of procurement and efficiency solutions for commercial and industrial customers including LED lighting and retrofits. This segment includes the operations of the previously acquired Shepherd Energy Solutions and Primary Metering Systems.

**Energy Brokerage:** The Energy Brokerage reportable segment provides competitive electricity and natural gas purchase programs for residential and commercial consumers, while giving energy suppliers the opportunity to extend special offers and savings to potential new customers. This segment includes the operations of H.P. Technologies.

**Call Center Services:** The Call Center Services reportable segment offers inbound and outbound call services on a short or long-term basis customized to client needs. This segment includes the operations of Contact Source Solutions.

**Building Solutions:** The Building Solutions reportable segment designs, engineers, tests and assembles curtainwall systems or other building solutions used in large custom construction projects. This segment includes the operations of Midwest Curtainwalls.

**Wholesale Purchasing:** The Wholesale Purchasing reportable segment is a national distributor of roofing, windows, fasteners and associated tools and accessories. This segment includes the operations of Authority National Supply which was established to create purchasing power amongst a group of independent building material providers by obtaining discounts from suppliers based on the collective buying power of its members.

**Other:** The remaining businesses and Corporate activities of Innovest are reported within the Other reportable segment. This reportable segment consists of the activities of Chagrin Safety Supply and Innovest Global Corporate spending.

We have also made a strategic investment in a cutting-edge biotechnology company called StemVax that is developing novel therapies for brain tumor patients.

Prior to 2019, the Company reported the results of the business under four operating segments. In 2019 we re-established our reportable segments based on the type of customer served and the management structure of our team. The historical results of the business have been restated under the six current operating segments. We evaluate the performance of our segments based on the revenues, gross profit and segment contribution.

The following tables provide selected information as of and for the quarters ended March 31, 2020 and 2019.

	Quarter ended March 31, 2019						
	Energy Solutions	Energy Brokerage	Call Center Services	Building Solutions	Wholesale Purchasing	Other	Total
Revenue from external customers	\$ 730,772	\$ 424,315	\$ 404,458	\$ 2,063,145	\$ 8,819,896	\$ 38,432	\$ 12,481,018
Interest expense, net	-	-	305	4,755	(222)	173	5,011
Depreciation and amortization	29,166	6,183	-	16,326	960	3,397	56,032
Operating income (loss)	54,702	130,283	60,590	(180,948)	10,530	(1,076,826)	(1,001,669)
Noncash charge for adjustment to fair value of stock guarantee	(1,991,650)	-	-	-	-	-	(1,991,650)
Loss on sale of assets	-	-	-	-	-	105,000	105,000
Segment profit (loss)	2,046,352	130,283	60,285	(185,703)	10,752	(1,181,999)	879,970
Goodwill	1,179,346	267,890	600,790	708,075	2,476,069	221,381	5,453,551
Segment assets	1,537,680	760,596	730,520	3,328,605	9,977,495	658,053	16,992,949



# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

	Quarter ended March 31, 2020						Total
	Energy Solutions	Energy Brokerage	Call Center Services	Building Solutions	Wholesale Purchasing	Other	
Revenue from external customers	\$ 352,854	\$ 389,915	\$ 529,734	\$ 2,205,565	\$ -	\$ 67,159	\$ 3,545,227
Interest expense, net	-	-	502	5,337	-	52,677	58,516
Depreciation and amortization	29,166	6,183	-	12,531	1,420	15,301	64,601
Operating income (loss)	(124,359)	(21,679)	(73,987)	1,036,912	(279,506)	(1,197,259)	(659,878)
Gain on investment	-	-	-	-	-	(83,258)	(83,258)
Segment profit (loss)	(124,359)	(21,679)	(74,489)	1,031,575	(279,506)	(1,166,677)	(635,135)
Goodwill	1,179,346	267,890	600,790	-	2,476,069	221,381	4,745,476
Segment assets	1,263,980	607,192	746,636	2,745,168	2,992,869	1,431,537	9,787,382

## Note 14 - Leases

The Company determines if an arrangement is a lease at inception. The Company has leases for its facilities and office equipment, with remaining lease terms of 0.1 to 9.3 years. The Company's lease arrangements may contain both lease and non-lease components. The Company has elected to combine and account for lease and non-lease components as a single lease component for its facilities and office equipment leases. Payments under the Company's lease arrangements are fixed or in-substance fixed. Certain of these leases include options to extend the lease for up to five years, and some include options to terminate the lease early. These renewal and termination options are included in the calculation of the right-to-use asset and lease liability if they are reasonably certain of exercise. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The Company has elected to apply the short-term lease exception to all leases with an initial term of one year or less; the Company recognizes lease expense for these leases on a straight-line basis over the lease term.

Additional information about the Company's leases is as follows:

	March 31, 2020	March 31, 2019
Operating leases cost (included in operating expense and cost of sales)	\$ 183,511	\$ 109,702
Finance lease cost (included in interest expense and depreciation and amortization)	501	533
Short-term lease cost (included in operating expense and cost of sales)	10,866	17,681
<b>Total lease costs</b>	<b>\$ 194,878</b>	<b>\$ 127,916</b>

Other information:

Weighted average remaining lease term	8.56 years
Weighted average discount rate	12.15%

## Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

Lease liability maturities as of March 31, 2020, are as follows:

	Operating Leases	Finance Leases	Total
2020	\$477,975	\$1,350	\$479,325
2021	661,696	1,800	663,496
2022	712,378	1,800	714,178
2023	734,276	1,650	735,926
2024	758,749	-	758,749
Thereafter	2,913,000	-	2,913,000
<b>Total undiscounted liabilities</b>	<b>6,258,074</b>	<b>6,600</b>	<b>6,264,674</b>
Less: Imputed interest	2,496,595	1,213	2,497,808
<b>Total lease liabilities</b>	<b>\$ 3,761,479</b>	<b>\$ 5,387</b>	<b>\$ 3,766,866</b>

## Note 15 - 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:

	2020	March 31, 2019
Current income tax expense (recovery)	\$ -	\$ -
Deferred income tax recovery (expense)	(547,420)	114,939
Increase / (Decrease) in valuation reserve	547,420	(114,939)
<b>Total income tax expense (recovery)</b>	<b>-</b>	<b>-</b>
Federal income tax recovery, computed at 21% of pretax loss	(305,583)	(232,154)
California income tax recovery, computed at 8.8% of apportioned pretax loss	(169,534)	(10,586)
Local income tax recovery, computed at 2.5% of pretax loss	(146,186)	(9,120)
Effect of nontaxable income	73,883	366,799
Increase / (Decrease) in valuation reserve	547,420	(114,939)
<b>Total provision for income taxes</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Deferred tax assets:</b>		
Contingent consideration - Stock guarantee liability	\$ 828,900	\$ 172,500
Net operating loss and tax credit carryforward	4,535,020	750,006
Other	186,900	28,900
<b>Gross deferred tax assets</b>	<b>5,550,820</b>	<b>951,406</b>
Valuation allowance recognized for deferred tax assets	(5,544,120)	(892,906)
<b>Net deferred tax assets</b>	<b>6,700</b>	<b>58,500</b>
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(6,700)	(17,100)
Other	-	(41,400)
<b>Gross deferred tax liabilities</b>	<b>(6,700)</b>	<b>(58,500)</b>
<b>Net deferred tax asset (liability)</b>	<b>\$ -</b>	<b>\$ -</b>

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

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## Notes to Consolidated Financial Statements

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Quarters Ended March 31, 2020 and 2019

The Company accounts for income taxes in accordance with GAAP, which require recognition of and disclosures related to uncertain tax positions. As of, and during the quarters ended, March 31, 2020 and 2019, the Company did not have a liability for unrecognized tax benefits.

The Company has approximately \$20 million of federal and \$8.3 million of state and local 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 \$547,420 and decreased by \$114,939 for the quarters ended March 31, 2020 and 2019, respectively.

### Note 16 - Stockholders' Equity

#### ***Stock Compensation and Other Stock Awards***

At the end of 2019, the Company established an Equity Incentive Plan to provide stock-based compensation to employees. The Plan allows for the issuance of incentive stock options, non-qualified stock options and restricted stock units to participants eligible under the plan. The plan was approved by the Board of Directors in December 2019. In the first quarter 2020, the Company issued 150,000 incentive stock options awards to existing employees that vested immediately. Each incentive stock option gives the employee the right to purchase one share of common stock. The fair value of these options was determined based on a Black-Sholes Model that uses weighted average assumptions, including actual transactions of the Company's stock occurring around the time the share options were granted; expected volatility based on historical volatility of the Company and comparable, or guideline, public companies; the expected term of options granted representing the period of time that options granted are expected to be outstanding, which takes into account the options' vesting and contractual term elements; a dividend yield; and a discount rate for periods within the contractual life of the option which is based on the U.S. Treasury yield curve in effect at the time the options are granted. This amount is included in operating expense on the Consolidated Statement of Operations and in additional paid-in capital on the Consolidated Balance Sheet. For the quarters ended March 31, 2020 and 2019, the Company recognized \$291,000 and \$307,300 in stock compensation expense respectively.

#### ***Common and Preferred Stock***

There was no preferred stock activity in 2020 or 2019.

### Note 17 - 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.

# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

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 March 31, 2020 and 2019.

March 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>			
Cash and cash equivalents	\$ 20,935	\$ -	\$ -
Accounts receivable	2,567,865	-	-
<b>Total assets</b>	<b>\$ 2,588,800</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities</b>			
Accounts payable	\$ 3,538,927	\$ -	\$ -
Bank line of credit	723,970	-	-
Note payable	99,566	-	-
Stock guarantee (Note 18)	-	-	8,118,000
<b>Total liabilities</b>	<b>\$ 4,362,463</b>	<b>\$ -</b>	<b>\$ 8,118,000</b>

March 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>			
Cash and cash equivalents	\$ 658,889	\$ -	\$ -
Accounts receivable	9,804,264	-	-
<b>Total assets</b>	<b>\$ 10,463,153</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Liabilities</b>			
Accounts payable	\$ 9,456,304	\$ -	\$ -
Bank line of credit	348,640	-	-
Note payable	119,164	-	-
Stock guarantee (Note 18)	-	-	4,449,000
<b>Total liabilities</b>	<b>\$ 9,924,108</b>	<b>\$ -</b>	<b>\$ 4,449,000</b>

# Notes to Consolidated Financial Statements

Quarters Ended March 31, 2020 and 2019

## Note 18 - 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 stock guarantee liability is assessed for changes in value at least on an annual basis, at December 31, or upon changes in the underlying contract agreements. 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 had adjusted the fair value at December 31, 2019 to \$8,118,000. Adjustments to the liability are recorded in the accompanying consolidated statement of operations as nonoperating expense.

This liability is measured at fair value on an annual 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 Innovest Global, 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 at March 31, 2020 and 2019.

Acquiree	Fair Value at January 1, 2020	Adjustment for Contract Valuation	Fair Value at March 31, 2020
Chagrin Safety Supply	\$ 398,000	-	\$ 398,000
Shepherd Energy	-	-	-
Contact Source Solutions	2,100,000	-	2,100,000
H.P. Technologies	1,200,000	-	1,200,000
Authority National Supply	3,360,000	-	3,360,000
Midwest Curtainwalls	1,060,000	-	1,060,000
<b>TOTAL</b>	<b>\$ 8,118,000</b>	<b>\$0</b>	<b>\$ 8,118,000</b>

Acquiree	Fair Value at January 1, 2019	Adjustment for Contract Valuation	Fair Value at March 31, 2019
Chagrin Safety Supply	\$ 229,000	-	\$ 229,000
Shepherd Energy	2,470,000	(2,470,000)	-
Contact Source Solutions	1,060,000	-	1,060,000
H.P. Technologies	620,000	-	620,000
Authority National Supply	1,820,000	-	1,820,000
Midwest Curtainwalls	720,000	-	720,000
<b>TOTAL</b>	<b>\$ 6,919,000</b>	<b>\$(2,470,000)</b>	<b>\$ 4,449,000</b>

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## **Notes to Consolidated Financial Statements**

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**Quarters Ended March 31, 2020 and 2019**

On March 18, 2019, the Company entered into 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. Management calculated the guarantee value at the date of settlement and then this amount was removed from the balance sheet as a gain on the settlement. This termination resulted in a non-operating gain to Innovest of \$2.47 million. Consideration for the termination agreement was 1.5 million shares paid equally to the three former principals. The expense associated with this share issuance was \$478,350, which was booked as an offset to this gain.

There are two purchase agreements that had stock guarantee liabilities that were due to be settled by March 30, 2020, Contact Source Solutions and H.P. Technologies. The parties are continuing to negotiate the settlement of these stock guarantee liabilities and expects resolution of the liabilities in the near term.

### **Note 19 - 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.

Damon Mintz, Director and President of Innovest Global joined the management team in January 2018 upon the acquisition of Shepherd Energy. From January 2018, Mr. Mintz served as the President of what has become the Innovest Energy group and then in January 2019 was promoted to the President of Innovest Global. In October 2019, he was appointed to the Innovest Board of Directors.

One of the members that participates in the purchasing program at Authority National Supply, CC Supply, is owned by an individual who is the CEO of Authority National Supply. For the quarter ended March 31, 2019, the Company had \$1.2 million in sales to this company through the Wholesale purchasing segment. There were no sales to this Company in 2020.

The President of H.P. Technologies owns a company that licenses energy broker software. The Company has contracted with this related party to utilize the software through a service agreement at an annual cost of \$240,000. For the quarters ended March 31, 2020 and 2019, the Company paid \$60,000 and \$20,000 to this related party, respectively.

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 Innovest Global. As of March 31, 2020, there was a loan payable to TN3, LLC of \$349,300.

### **Note 20 - Retirement Plans**

Midwest Curtainwalls sponsors a 401(k) plan for substantially all employees who meet certain age and length of service requirements. In 2019, the Company terminated the associated match to employee contributions on the plan. There were no contributions made to this plan in 2019 or 2020.

### **Note 21 – Subsequent Events**

In preparing the consolidated financial statements, the Company has evaluated subsequent events and transactions for potential recognition or disclosure through July 3, 2020, the date that the consolidated financial statements were available to be issued.

There were two purchase agreements that had stock guarantee liabilities that were due to be settled by March 30, 2020, Contact Source Solutions and H.P. Technologies. The parties are continuing to negotiate the settlement of these stock guarantee liabilities and expects resolution of the liabilities in the near term.

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## **Notes to Consolidated Financial Statements**

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**Quarters Ended March 31, 2020 and 2019**

As a result of the spread of the COVID-19 during 2020, economic uncertainties have arisen as of the date of the consolidated financial statements. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the impact on the Company's customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Company's financial condition or results of operations is uncertain.

In April 2020, the Company received proceeds from their lending bank of \$1.25 million as guaranteed by the Small Business Administration's Paycheck Protection Program. The Company secured these funds in order to help keep their workforce employed during the COVID-19 crisis. The loan can be 100% forgiven as long as the Company meets specific criteria, as defined, for the eight to 24 weeks following receipt of the loan proceeds. This includes maintaining a certain level of employee headcount and compensation during that time period as well as demonstrating that the money was used for payroll costs, rent, mortgage interest, or utilities.