



INVENTRONICS LIMITED

2016 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended December 31, 2016

2016 Annual and Fourth Quarter Financial Report – December 31, 2016

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated April 27, 2017 and was prepared based on information available to Inventronics Limited (referred to herein as "Inventronics" or the "Corporation") as of this date to help readers interpret Inventronics' financial results for the three and twelve month periods ended December 31, 2016. This MD&A should be read in conjunction with the Corporation's 2016 audited annual financial statements which consist of the Corporation's Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity, Notes to the Financial Statements and the Auditors' Report thereon (collectively referred to as the "financial statements"). The financial statements and other information relating to the Corporation are available under Inventronics' profile on the SEDAR website at www.sedar.com. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts within this report are expressed in Canadian dollars unless otherwise stated.

1. Corporation Overview

Originally founded in 1970 in Brandon, Manitoba, Canada, Inventronics designs and manufactures protective enclosures for use in utility-type infrastructures. The Corporation's products are found in telecommunication networks, electric power distribution networks, cable television networks, traffic control systems and oil and gas installations where they are utilized in both outdoor and indoor applications to house and protect passive and/or active electrical and electronic components. Although the Corporation's products have been primarily placed in service throughout North America, it is not uncommon to find Inventronics enclosures in international infrastructures as well. A significant portion of Inventronics' sales are for products that are custom designed and manufactured to suit the needs of each customer for particular applications. This can range from the modification of an existing cabinet configuration to the conceptualization and manufacture of a brand new enclosure. The Corporation also markets a line of Inventronics-branded standard enclosures which are sold directly to utilities, original equipment manufacturers or through distributors. In some circumstances, the customer's components are incorporated into the enclosures which are delivered directly to the end user, providing a complete outsourcing service.

The industries in which the Corporation's products are utilized are going through considerable transformations to adapt to changing competitive and regulatory environments, new technology and new consumer demands. In the telecommunications sector, traditional telephone companies have made extensive inroads into non-traditional markets such as television transmission as well as improving and expanding internet services with high-speed and wireless offerings. Telecommunication networks are being modified to handle the substantial data volume requirements of these new services. Traditional cable companies, on the other hand, are actively converting their networks to enable high-speed internet capabilities while extending the reach of their networks into new regions. Within the electric power industry, aging power grids throughout North America have struggled with security risks and escalating demands for electricity from factors such as the construction of new neighbourhoods, larger houses requiring additional lighting and temperature control and the increased use of electronics. This increasing demand, and the possibility of a substantial additional need with a widespread adoption of electric motor vehicles, has resulted in the need to upgrade many existing power generation and distribution networks.

Inventronics operates from its ISO 9001:2008 certified facility located in Brandon, Manitoba where product design, manufacturing, corporate administration and sales functions are performed. The Corporation's production employees are organized under the United Steelworkers Union ("USW"). The Corporation is incorporated in the Province of Alberta, Canada, has no subsidiaries and its shares are publicly traded on the TSX Venture Exchange under the symbol IVX.

2. Selected Annual Financial Information

Selected Annual Financial Information			
<i>(in thousands of dollars, except per share amounts)</i>			
For the years ended December 31	2016	2015	2014
Revenue	3,830	4,187	4,872
EBITDA ¹	213	82	123
Net loss	(283)	(414)	(380)
Total assets	3,268	3,513	3,814
Long-term debt, excluding current portion	2,234	2,270	2,304
Basic and diluted loss per share	(6.4)¢	(9.4)¢	(8.6)¢

Note 1. See "Non-IFRS Measures" below.

3. Summary of Financial Results

During fiscal 2016, for the majority of the Corporation's customers, the Corporation experienced product demand which was considered 'typical' and, in many cases, greater compared to the comparative period of recent fiscal years. However, product demand from those customers that had a significant exposure to a weakened Alberta marketplace, which when combined represented a significant portion of the Corporation's business, was constrained during fiscal 2016 to the extent that gains in product demand elsewhere were more than offset. The Corporation's management believes that, in general, the reduced demand from its Alberta-exposed customers is a temporary condition and likely to rebound when the condition of the Alberta economy begins to strengthen.

During 2016, the Corporation continued a close focus on cost control which served to mitigate the amount of net losses reported for the three and twelve months ended December 31, 2016.

Selected Quarterly Financial Information

(in thousands of dollars, except percentage and per share amounts)

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	1,009	981	1,080	760	822	1,145	1,317	903
Cost of sales as a percentage of Revenue	89%	88%	84%	102%	109%	90%	84%	101%
EBITDA ¹	76	90	130	(83)	(108)	91	175	(75)
Net income (loss)	(46)	(34)	5	(208)	(230)	(36)	50	(198)
Basic and diluted earnings (loss) per share	(1.1)¢	(0.8)¢	0.1¢	(4.7)¢	(5.2)¢	(0.8)¢	1.1¢	(4.5)¢

Note 1. See "Non-IFRS Measures" below.

4. Results of Operations

Revenue

Revenue for the fourth quarter of 2016 of \$1.01 million was \$187,000, or 23%, higher than revenue of \$822,000 reported for the comparative quarter of 2015 based on improved demand from a western Canadian telecom company, new business from an eastern Canadian telecom/cable industry distributor and stabilized demand from those customers most affected by the Alberta marketplace.

Revenue for the fiscal year ended December 31, 2016 of \$3.83 million was \$357,000, or 8.5%, lower than revenue of \$4.19 million for the comparative period of 2015. The decrease in revenue can be isolated to comparatively lower demand in 2016 for products going into the Alberta marketplace. As there remains significant customer project plans in this region of Canada in markets that the Corporation serves, it is the Corporation's management's belief that the uncertain economic and political climate that has persisted in this area of Canada had resulted in a more cautious spending approach for some of the Corporation's western Canadian customers. The Corporation did not have a significant direct exposure to the Canadian oil and gas industry over the reported periods but was exposed to this industry through its effect on both the Canadian economy and the Corporation's customers that sell directly into this industry.

Cost of Sales

Cost of sales as a percentage of revenue for the three months ended December 31, 2016 of 89% was consistent with previous quarters with similar revenue levels during fiscal 2016 and 2015 reflecting the fact that the structure of the Corporation's manufacturing operations remained substantially unchanged between these two periods. Cost of sales as a percentage of revenue for the fourth quarter of 2016 was improved over the 109% reported for the comparative period of 2015, where the 2015 result was a reflection of the Corporation's fixed and semi-variable costs on an abnormally low revenue level. Depreciation and amortization expense included in cost of sales for the three and twelve month periods ended December 31, 2016 of \$80,000 and \$324,000, respectively, was consistent with the \$82,000 and \$326,000, respectively, reported for the comparative periods of 2015 reflecting the fact that the Corporation had not made any significant capital purchases or disposals during fiscal 2016 and 2015.

Selling and Administrative Expense

Selling and administrative spending for the three and twelve month periods ended December 31, 2016 of \$117,000 and \$489,000, respectively, was consistent with the \$115,000 and \$485,000, respectively, reported for the comparative periods of 2015 reflecting that the selling and administrative structure of the Corporation had not changed significantly between these periods.

Interest

Interest expense for the three and twelve month periods ended December 31, 2016 of \$42,000 and \$172,000, respectively, was consistent with the \$43,000 and \$173,000, respectively, reported for the comparative periods of the prior year reflecting similar debt principal balances and interest rates between the two comparative periods.

Net Loss

For the fourth quarter of 2016, the Corporation reported a net loss of \$46,000, or 1.1 cents per share, compared to a net loss of \$230,000, or 5.2 cents per share, for the comparative quarter of 2015 where the improvement compared to 2015 was attributed to higher revenue, a modest improvement in product margins and tighter cost control over plant operations in 2016. For the twelve months ended December 31, 2016, the Corporation reported a net loss of \$283,000, or 6.4 cents per share, compared to a net loss of \$414,000, or 9.4 cents per share, for the comparative period of 2015. Although comparative revenues over these two periods were lower in 2016, a modest improvement in overall product margins and tight cost control during 2016 helped to mitigate the negative financial impact of lower sales volumes.

5. Income Taxes

At December 31, 2016, the Corporation had Canadian non-capital losses of \$526,000 (2015 - \$526,000). No Canadian non-capital losses expired in 2016 (2015 - \$0) and the remaining Canadian non-capital losses are scheduled to expire as follows:

(In thousands of dollars)

2026	268
2028	91
2034	50
2035	117
<u>Total</u>	<u>526</u>

At December 31, 2016, the Corporation had non-expiring Scientific Research & Experimental Development ("SR&ED") deductible cost pools of \$119,000 (2015 - \$119,000) and federal and provincial SR&ED investment tax credits of \$96,000 (2015 - \$96,000) due to expire in 2025.

6. Liquidity and Capital Resources

Cash Flow from Operations

The Corporation considers cash flow from operations to be cash flow from operating activities before changes in non-cash working capital balances. For the three months ended December 31, 2016, the Corporation's operations generated cash flow of \$72,000 compared to an outflow of \$108,000 for the comparative period of the prior year. For the twelve months ended December 31, 2016, the Corporation's operations generated cash flow from operations of \$193,000 compared to \$68,000 for the comparative period of the prior year.

Cash Flow from Operations

(in thousands of dollars)

For the periods ended December 31	Three months		Twelve months	
	2016	2015	2016	2015
Net loss	(46)	(230)	(283)	(414)
Add: Interest on long-term debt ¹	38	38	151	153
Add: Depreciation	80	82	324	326
Add: Other items not involving cash	-	2	1	3
<u>Cash flow from Operations</u>	<u>72</u>	<u>(108)</u>	<u>193</u>	<u>68</u>

Note 1. Interest on long-term debt considered a component of financing and therefore added back to net income (loss) to determine cash flow from operations.

Working Capital Position

As at December 31, 2016, the Corporation reported a working capital balance of \$303,000 which represented a \$20,000 improvement over the most recent quarter and was generally consistent compared with the \$317,000 reported as at the conclusion of the prior fiscal year. The change in working capital over the fourth quarter of 2016 was the result of cash flow from operations of \$72,000 less payments for long-term debt interest and principal of \$46,000 and capital expenditures of \$5,000. The change in working capital over fiscal 2016 was the result of cash flow from operations of \$193,000; offset by: payments for long-term debt interest and principal of \$185,000, capital expenditures of \$20,000; and an increase in the current portion of long-term debt of \$2,000.

Working Capital Position

(in thousands of dollars, except ratio calculation)

At the end of	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Current assets	1,034	1,065	1,096	1,086	975	1,340	1,616	1,198
Current liabilities	731	782	844	904	658	879	1,167	868
Working capital	303	283	252	182	317	461	449	330
Working capital ratio	1.41 :1	1.36 :1	1.30 :1	1.20 :1	1.48 :1	1.52 :1	1.38 :1	1.38 :1

At December 31, 2016, the Corporation's working capital ratio was 1.41:1. It is management's belief that the Corporation's working capital position at December 31, 2016 is sufficient to support the current operating requirements of the business.

Working Capital Liquidity

Working capital liquidity for operating purposes has generally been provided through positive cash flow from operations and the Corporation's line of credit arrangement. The Corporation's line-of-credit limit is \$850,000 and is margined on trade accounts receivable and inventories (see "*Borrowing Arrangements and Covenants*" below). During the three months ended December 31, 2016, the Corporation's line-of-credit balance ranged between \$195,000 (2015 - \$176,000) and \$423,000 (2015 - \$409,000) with an average balance of \$307,000 (2015 - \$291,000). During the twelve months ended December 31, 2016, the Corporation's line-of-credit balance ranged between \$195,000 (2015 - \$0) and \$533,000 (2015 - \$539,000) with an average balance of \$359,000 (2015 - \$321,000).

7. Share Capital

An unlimited number of common shares are authorized for issue. The following table summarizes the authorized, issued and outstanding common shares of the Corporation.

Share Capital

(dollar amounts in thousands)

As at	December 31, 2016		December 31, 2015	
	Shares	Amount	Shares	Amount
Authorized, issued and outstanding common shares	4,405,145	\$ 2,276	4,405,145	\$ 2,276

There was no change to the Corporation's share capital during the fiscal years ended December 31, 2016 and December 31, 2015, respectively, and there was no change to the Corporation's share capital since December 31, 2016.

Stock option plan

Inventronics maintains a stock option plan providing the Corporation the ability to grant options to employees and directors to purchase one common share of the Corporation per option. At December 31, 2016, there were 400,000 options granted, outstanding and exercisable with an exercise price of \$0.10 (December 31, 2015 - 400,000). There was no activity with respect to the Corporation's stock option plan during the 2016 and 2015 fiscal years and there was no activity related to the Corporation's stock option plan since December 31, 2016.

The following table summarizes the issued and outstanding common shares of the Corporation along with stock options convertible into common shares.

Diluted Common Shares Outstanding

As at December 31

	2016		2015	
	Number of shares	Weighted average number of shares	Number of shares	Weighted average number of shares
Issued and outstanding common shares	4,405,145	4,405,145	4,405,145	4,405,145
Stock options outstanding ⁽¹⁾	400,000	114,286	400,000	133,334
Diluted common shares outstanding	4,805,145	4,519,431	4,805,145	4,538,479

Note 1: For the purposes of calculating the diluted weighted average number of shares outstanding, only those options which are considered "in the money" (strike price below the Corporation's annual average common share price) are considered.

8. Borrowing Arrangements and Covenants

Operating credit

The Corporation maintains a demand operating credit facility with its banker utilized by way of a line-of-credit, margined on the Corporation's accounts receivable and inventory balances and secured by a general security agreement constituting a first ranking security interest on all personal property of the Corporation and *Section 427 of the Bank Act (Canada)* security over inventory. Effective August 25, 2016, the Corporation reduced its authorized limit to \$850,000 from \$1.25 million and received a reduction in interest rate to prime plus 2.50% from prime plus 2.75%. There are two financial covenants pertaining to this demand operating credit facility that are tested annually at December 31: (i) working capital ratio; and (ii) debt to tangible net worth ("DTNW") ratio. The Corporation is in compliance with all covenants and obligations pertaining to this arrangement.

Long-term debt

The Corporation has a long-term lending agreement in the form of a fixed rate mortgage maturing in 2042; bearing interest of 6.6%; repayable monthly in blended principal and interest installments of \$15,409; secured by a mortgage on the Corporation's production facility and land in Brandon, Manitoba, a general security agreement providing a security interest in all of the Corporation's present and after acquired personal property but accepting a subordinate position to all existing registered charges. In 2017, after a five-year period from the initial loan agreement date, the loan was subject to a market-based interest rate adjustment in accordance with the loan agreement. Effective April 10, 2017, the Corporation selected a 2-year fixed interest rate term bearing an interest rate of 6.0% with a blended monthly payment of \$14,571. Although containing general performance conditions, the loan agreement does not contain any financial covenants that must be periodically tested. The Corporation is in compliance with all covenants and obligations pertaining to this arrangement.

9. Foreign Currency Exposure

For the fiscal years ended December 31, 2016 and 2015, the Corporation did not have a significant direct exposure to foreign currency risk as a majority of its sales were delivered to the Canadian marketplace and denominated in Canadian dollars ("CAD"), a substantial majority of the Corporation's purchases were denominated in CAD and the Corporation maintained only minimal United States dollar ("USD") cash balances. For the 2016 fiscal year, 88% (2015 - 92%) of the Corporation's sales were denominated in CAD with 12% (2015 - 8%) in USD.

10. Collective Bargaining Agreement

The Corporation's production labour force is organized under a collective bargaining agreement with the USW. Effective June 1, 2014, the Corporation and its unionized employees entered into a three-year labour agreement which provided wage increases totalling 4.75% over the contract period. There were no other significant changes to the agreement.

11. Related Party Transactions

The members of Inventronics' senior management team, as a group, wholly own the corporation (the "Controlling Shareholder") that holds approximately 69% of the outstanding common shares of the Corporation. Each of the four members of the senior management team are members of Inventronics' Board of Directors ("Board") (see "Governance" below). Members of the senior management team receive no compensation for their service as Board members. The Corporation pays salary to its senior management team for their employment services and incurs related employee benefit costs. During the three and twelve month periods ended December 31, 2016, the Corporation paid \$125,000 (2015 - \$115,000) and \$483,000 (2015 - \$499,000), respectively, related to salary and employee benefits for its senior management team, including stock option expense and statutorily mandated contributions to the Government of Canada's Employment Insurance and Canada Pension Plan programs. For further details of the compensation paid to the directors and officers of the Corporation, see the Statement of Executive Compensation (*Form 51-102F6*) for the year ended December 31, 2015 which is available on the Corporation's profile on SEDAR at www.sedar.com.

The Corporation pays a fee of \$1,000 per month to its Controlling Shareholder. During the three and twelve month periods ended December 31, 2016, total fees expensed were \$3,000 (2015 - \$3,000) and \$12,000 (2015 - \$12,000), respectively.

12. Governance

The Corporation's Board is comprised of the four members of the Corporation's senior management team. Effective July 8, 2015, with the annual meeting of shareholders of the Corporation, both of the Corporation's then existing independent Board members did not stand for re-election. All of the Board members also sit on the Corporation's Audit Committee.

13. Non-IFRS Measures

EBITDA

Earnings before interest, tax, depreciation and amortization ("EBITDA") is not a recognized measure under International Financial Reporting Standards ("IFRS"). However, management believes that EBITDA is a useful supplementary measure to net earnings, as it provides investors with an indication of cash earnings prior to debt service, capital expenditure, income tax and non-cash items. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Corporation's performance or to cash flows from operating, investing and financing activities as a measure of liquidity or cash flows. The Corporation's method of calculating EBITDA may differ from the methods by which other companies calculate EBITDA and, accordingly, the EBITDA used herein may not be comparable to measures used by other companies.

A reconciliation of EBITDA to net income is:

Reconciliation of EBITDA to Net Income (Loss)

(in thousands of dollars)

For the periods ended December 31	Three months		Twelve months	
	2016	2015	2016	2015
EBITDA	76	(108)	213	82
Less: Depreciation and amortization	80	82	324	326
Less: Interest expense	42	43	172	173
Add: Recovery of income taxes	-	3	-	3
Net loss	(46)	(230)	(283)	(414)

14. Outlook

Noting that the Corporation's revenues often show a close correlation to Canadian economic conditions and that there have been no clear signals on which direction the Canadian economy is headed, customer orders to the Corporation over the final portion of the fourth quarter of 2016 and early into the first quarter of 2017 were such that the Corporation is forecasting revenue for the first quarter of 2017 that is consistent with that of the fourth quarter of 2016.

15. Forward-looking Information

Certain statements contained in this report, including this MD&A, contain forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things: the Corporation's expectations, perceptions and beliefs with respect to the industries with which the Corporation is exposed; the Corporation's expectations, perceptions and beliefs with respect to the economy in general, and specifically the condition of the Alberta economy, and the related impact on the Corporation's customers and/or demand for the Corporation's products; the Corporation's expectations, perceptions and beliefs with respect to its working capital position and its sufficiency to support the Corporation's current operations; and the Corporation's expectations, perceptions and beliefs with respect to its forecast financial results for the first quarter of 2017. All statements other than the statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. These risks and uncertainties include, but are not limited to: foreign currency fluctuations; variability of quarterly operating results; general economic conditions; actions by government authorities; competitor activity; indebtedness of the Corporation; customer concentration risks; availability of future financing; changes in the price of raw materials; interest rates; and changes in the communications, power and cable industries. With respect to the forward-looking statements contained in this MD&A we have made certain assumptions with respect to, among other things, economic and weather conditions and their impact on the Corporation's revenues, the price of supplies used for the Corporation's products, and the spending patterns of the Corporation's customers. Although management of the Corporation believes such assumptions are reasonable, undue reliance should not be placed on forward-looking information as the Corporation can give no assurance that such assumptions will prove to be correct. The forward-looking information has been included herein to provide shareholders with a more complete outlook on the Corporation's future business and operations and this information may not be appropriate for other purposes. The Corporation does not undertake to update the forward-looking information contained herein except as required by applicable laws.