



INVENTRONICS LIMITED

2018 THIRD QUARTER FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

For the periods ended September 30, 2018

2018 Third Quarter Financial Report – September 30, 2018

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated November 28, 2018 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 nine month periods ended September 30, 2018. This financial report, including the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity, and Notes to the Financial Statements (collectively referred to as the "financial statements") and this MD&A, should be read in conjunction with the Corporation's audited annual financial statements and accompanying MD&A for the year ended December 31, 2017, which are available on the SEDAR website at www.sedar.com under the Inventronics profile. All dollar amounts within this report are expressed in Canadian dollars ("CAD") unless otherwise stated.

Forward-looking information advisory. 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/or beliefs with respect to: economic and/or political conditions and the related impact on the Corporation's customers and/or demand for the Corporation's products; how its customers plan and execute their purchasing decisions and/or what factors might impact those decisions; its working capital position and its sufficiency to support the Corporation's current operations; and its forecast financial results for the fourth quarter of 2018. All statements other than 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: general economic conditions; foreign currency fluctuations; actions by government authorities; competitor activity; indebtedness of the Corporation; availability of future financing; customer concentration risks; changes in the price of raw materials; interest rates; and changes in the communications, power and cable industries. Although management of the Corporation believes such statements 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.

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 typically found in telecommunication networks, cable television networks, electric power distribution 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 other international infrastructures as well. A significant portion of Inventronics' revenues are generated from the sale of Inventronics-branded standard products which are sold directly to utilities, original equipment manufacturers and/or through distributors. Additionally, for customers with specialty requirements, the Corporation designs and manufactures products that have been custom designed to suit the customer's needs. This can range from the modification of an existing Inventronics cabinet to the conceptualization and manufacture of a new enclosure.

Inventronics operates from its ISO 9001:2015 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			
	2017	2016	2015
Revenue	4,480	3,830	4,187
EBITDA ¹	321	213	82
Net income (loss)	81	(283)	(414)
Total assets	3,228	3,268	3,513
Long-term debt, excluding current portion	2,189	2,234	2,270
Basic and diluted earnings (loss) per share	1.8¢	(6.4)¢	(9.4)¢

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

3. Summary of Financial Results

After a slow start to the year in the first two quarters revenues improved in the third quarter to a level slightly surpassing the third quarter of 2017. Cost cutting measures implemented in the second quarter took hold in the third quarter and produced improved margins and income compared to the same quarter in 2017. Net income was negatively impacted by a non-cash reorganization charge in the quarter.

Selected Quarterly Financial Information
(in thousands of dollars, except percentage and per share amounts)

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	1,282	874	752	1,135	1,224	1,113	1,008	1,009
Cost of sales as a percentage of Revenue	79%	88%	87%	86%	80%	79%	78%	89%
EBITDA ¹ before Restructuring	216	14	(34)	12	127	94	87	76
Net income (loss)	(34)	(47)	(93)	(45)	68	33	26	(46)
Basic and diluted earnings (loss) per share	(0.8)¢	(1.1)¢	(2.1)¢	(1.0)¢	1.5¢	0.7¢	0.6¢	(1.1)¢

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

4. Results of Operations

Revenue

Revenue for the third quarter of 2018 totalling \$1,282,000 was \$58,000 or 5%, higher than the \$1,224,000 reported for the comparative quarter of 2017.

Revenue for the first nine months of 2018 totalling \$2,908 million was \$437,000, or 13%, lower than the \$3.345 million reported for the same period of 2017 as a result of lower sales in the first half of the year.

The increase in revenues for the third quarter was attributable to an increase across the customer base and consistent with the seasonality of the business.

Cost of Sales

Cost of sales as a percentage of revenue for the three and nine month periods ended September 30, 2018 of 79% and 84% respectively reflect a significant improvement in the third quarter compared to both the prior year and to the first half of 2018. This is a result of cost reduction measures and increased revenue in the third quarter.

Depreciation and amortization expense included in cost of sales for the three and nine month periods ended September 30, 2018 of \$21,000 and \$62,000, respectively, was consistent with the \$20,000 and \$61,000, respectively, reported for the comparative periods of 2017, reflecting that the Corporation had not made any significant capital purchases during the last several fiscal years.

Selling and Administration Expense

Selling and administrative spending for the three and nine month periods ended September 30, 2018 of \$75,000 and \$338,000, respectively, was down from the \$136,000 and \$444,000 reported for the comparative periods of 2017, respectively, due to cost reduction measures implemented in the third quarter of 2018.

Interest

Interest expense for the three and nine month periods ended September 30, 2018 of \$41,000 and \$118,000, respectively, was relatively unchanged from the \$39,000 and \$122,000 reported for the comparative periods of the prior year, respectively.

Net Income or Loss

For the third quarter of 2018, the Corporation reported a net loss of \$34,000, or 0.8 cents per share, compared to net income of \$68,000, or 1.5 cents per share, reported for the comparative quarter of 2017 where the decrease is attributed to a restructuring charge of \$188,000.

For the first nine months of 2018, the Corporation reported a net loss of \$173,000, or 3.9 cents per share, compared to net income of \$126,000, or 2.9 cents per share reported for the comparative period of 2017. The decrease is attributed to lower revenue in the first half of 2018 and a one-time reorganization charge of \$188,000.

5. Income Taxes

At December 31, 2017, the Corporation had Canadian non-capital losses of \$1,452,000 (2016 - \$526,000). There were no Canadian non-capital losses that expired in 2017 (2016 - \$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
2037	926
Total	\$ 1,452

6. Liquidity and Capital Resources

Cash Flow from Operations

The Corporation considers a more useful measure of cash flow from operations to be cash flow from operating activities before changes in non-cash working capital balances. For the three months ended September 30, 2018, the Corporation's operations generated cash flow of \$209,000 compared to generating cash flow of \$122,000 for the comparative period of the prior year. For the nine months ended September 30, 2018, the Corporation's operations generated cash of \$178,000 compared to \$294,000 for the comparative period of the prior year.

Cash Flow from Operations

(in thousands of dollars)

For the periods ended September 30	Three months		Nine months	
	2018	2017	2018	2017
Net income before restructuring (loss)	154	68	15	126
Add: Interest on long-term debt ¹	33	34	100	106
Add: Depreciation	21	20	62	61
Add: Other items not involving cash	1	-	1	1
Cash flow from Operations	209	122	178	294

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 September 30, 2018, the Corporation reported a working capital balance of \$312,000, which was an improvement of \$80,000 over the balance at the end of the second quarter of 2018 but represented a decrease of \$37,000 during the first nine months of 2018 as a result of payments for long-term debt interest and principal, cash flow from operations, small capital expenditures and changes in current portion of long term debt (see "Borrowing Arrangements and Covenants" below). At September 30, 2018, the Corporation's working capital ratio was 1.25:1. It is management's belief that the Corporation's working capital position at September 30, 2018 is sufficient to support the current operating requirements of the business.

Working Capital Position

(in thousands of dollars, except ratio calculation)

At the end of	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Current assets	1,538	1,134	895	1,003	1,193	1,334	1,286	1,034
Current liabilities	1,226	902	649	654	767	977	959	731
Working capital	312	232	246	349	426	357	327	303
Working capital ratio	1.25 :1	1.26 :1	1.38 :1	1.53 :1	1.56 :1	1.37 :1	1.34 :1	1.41 :1

Working Capital Liquidity

Working capital liquidity for operating purposes has generally been provided through positive cash flow from operations and the Corporation's operating credit facility. The Corporation's operating credit facility limit is \$850,000 and is margined on trade accounts receivable and inventories (see "Borrowing Arrangements and Covenants" below).

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 <i>(dollar amounts in thousands)</i>	September 30, 2018		December 31, 2017	
	Shares	Amount	Shares	Amount
As at				
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 nine and twelve month periods ended September 30, 2018 and December 31, 2017, respectively, and there was no change to the Corporation's share capital since September 30, 2018.

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 September 30, 2018, there were 400,000 options granted, outstanding and exercisable with an exercise price of \$0.10 (December 31, 2017 - 400,000; \$0.10). There was no activity with respect to the Corporation's stock option plan during the nine and twelve months ended September 30, 2018 and December 31, 2017, respectively, and there was no activity related to the Corporation's stock option plan since September 30, 2018.

8. Borrowing Arrangements and Covenants

Operating credit

The Corporation maintains a demand operating credit facility with its banker in the form of an overdraft lending account, margined on the Corporation's accounts receivable and inventory balances, with an authorized limit of \$850,000 and an interest rate of prime plus 2.50%, 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. 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 6.0%; repayable monthly in blended principal and interest installments of \$14,571; 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. Effective April 10, 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. The Corporation selected a 2-year fixed interest rate term with an interest rate and installment amount as described above. Prior to April 10, 2017, the interest rate was 6.6% with a monthly blended principal and interest installment of \$15,409. Effective July 2018 the Corporation accepted its lender's offer to postpone six months of loan principal payments without any transaction fees or change in interest rate which had the effect of reducing the current portion of the debt. 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.

Restructuring obligation

In order to reduce the overhead costs of the Corporation, as of August 1, 2018 the Corporation and the Chief Financial Officer reached an agreement whereby the work time and salary of the CFO was reduced. This was done by terminating the existing employment agreement of indefinite term and replacing it with an employment agreement with a 36 month term with a reduced salary, benefits and time commitment. Pursuant to the terminated contract, a payment of \$187,500 was required. The CFO and the Corporation agreed to settle that obligation by 36 equal monthly payments of \$5,208 with no interest.

9. Foreign Currency Exposure

For the three and nine month periods ended September 30, 2018, 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 minimal United States dollar ("USD") cash balances.

10. Related Party Transactions

The members of Inventronics' executive management team, as a group, wholly own the corporation that holds approximately 69% of the outstanding common shares of the Corporation. Each of the four members of the executive management team are members of Inventronics' Board of Directors ("Board") and receive no compensation for their service as Board members. The Corporation pays salary to its executive management

team for their employment services and incurs related employee benefit costs. For the three and nine months ended September 30, 2018, the Corporation expensed \$96,000 (2017 - \$166,000) and \$371,000 (2017 - \$460,000), respectively, related to salary and employee benefits for its executive management team, including statutorily mandated contributions to the Government of Canada's Employment Insurance and Canada Pension Plan programs.

11. Governance

The Corporation's Board is comprised of the four members of the Corporation's executive management team and two independent members. The Corporation's President and the two independent members sit on the Corporation's Audit Committee. On June 23, 2017, one member of the Corporation's executive management team resigned their position on the Board to facilitate the appointment of the two independent directors. On November 24, 2017, with the Corporation's Annual General Meeting of Shareholders, the number of Board positions was increased from five to six and the existing five Board members were re-elected, along with the member of the Corporation's executive management team who previously resigned their Board position on June 23, 2017.

12. 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 before restructuring to Net Income (Loss) before restructuring

(in thousands of dollars)

<i>For the periods ended June 30</i>	Three months		Nine months	
	2018	2017	2018	2017
EBITDA before restructuring	216	127	195	308
Less: Depreciation and amortization	21	20	62	61
Less: Interest expense	41	39	119	122
Net income (loss) before structuring	154	68	14	125

13. Outlook

In addition to other sections of this MD&A, this section contains forward-looking information and actual outcomes may differ materially from those expressed or implied therein. Please see the forward-looking information advisory included in the opening section of this MD&A.

The improvement in revenues in the third quarter provides encouragement that the weak first half may have been anomalous although management has no certainty that the first half may be reflecting changing seasonal activity. The fourth quarter customer orders have continued to show recovery and the expectation is for those revenues to meet or exceed the fourth quarter of 2017. However, increasing prices for steel are expected to negatively impact earnings.