



INVENTRONICS LIMITED

2020 THIRD QUARTER FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

For the period ended September 30, 2020

2020 Third Quarter Financial Report – September 30, 2020

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated November 26, 2020 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 month period ended September 30, 2020. 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, 2019, 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: 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 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. 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

Founded in 1970 in Brandon, Manitoba, Canada, Inventronics designs, manufactures and markets 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 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 common to find Inventronics enclosures in other international infrastructures as well. The majority of Inventronics' revenues are generated from the sale of standard products which are sold directly to utilities, original equipment manufacturers and/or through distributors. For customers with special requirements, the Corporation designs and manufactures products to suit the customer's particular needs. This can range from the modification of an existing Inventronics cabinet to the design and manufacture of a custom 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. Select Annual Financial Information

Selected Annual Financial Information

(in thousands of dollars, except per share amounts)

For the years ended December 31	2019	2018	2017
Revenue	5,656	4,616	4,480
EBITDA ¹	452	257	321
Net earnings	195	16	81
Total assets	3,292	3,637	3,228
Long-term debt, excluding current portion	2,108	2,143	2,164
Basic and diluted earnings per share	4.4¢	0.4¢	1.8¢

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

3. Summary of Financial Results

As many of the Corporation's products are incorporated in outdoor installations, revenues are subject to seasonal fluctuations. The variability of weather conditions in the first and fourth quarters often limit the volume of installations that can be completed during this period. General economic conditions in Canada also contribute to the quarterly variation of results presented in the following table.

Selected Quarterly Financial Information

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

	2020			2019			2018	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	2,050	1,591	1,044	947	1,898	1,678	1,132	1,708
Cost of sales as a percentage of Revenue	78%	80%	79%	99%	76%	76%	85%	80%
EBITDA ¹	344	435	110	(87)	261	197	80	249
Net earnings (loss)	284	371	44	(151)	192	134	20	189
Basic and diluted earnings (loss) per share	6.5¢	8.4¢	1.0¢	(3.5)¢	4.4¢	3.0¢	0.5¢	4.3¢

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

4. Results of Operations

Revenue

Revenue for the third quarter of 2020 of \$2,050,000 was \$152,000, or 8%, higher than the \$1,898,000 reported for the comparative quarter of 2019. Revenue for the first nine months of 2020 totalling \$4,685,000 was \$23,000, or 0.5%, lower than the \$4,708,000 reported for the same period of 2019. The revenue level for July surged to \$1,073,000, which is the highest monthly sales value achieved in the past ten years. This record volume strengthened the third quarter and brought the year to date revenue in line with the prior year total. Activity continues to vary significantly from customer to customer depending on their approach to managing the COVID-19 response. The sales team is monitoring all accounts carefully to remain positioned to respond rapidly to customer demand changes as the markets recover.

Cost of Sales

Cost of sales as a percentage of revenue for the three months ended September 30, 2020 of 78% was higher than the 76% reported for the comparative period of 2019. Year to date cost of sales of \$3,698,000, or 79% of revenue, is slightly higher than the level recognized in the first nine months of 2019. Production efficiencies and labour costs were negatively impacted by the operating restrictions put in place over the past six months in response to the COVID-19 crisis. Government assistance through the Canada Emergency Wage Subsidy (CEWS) helps to offset these cost increases and is discussed further in the Net Income section of this report.

Selling and Administration Expense

Selling and administrative expenses for the third quarter of 2020 of \$202,000 was \$12,000 lower than the \$214,000 for the comparative period of 2019. This brings the 2020 nine month total to \$536,000 compared to \$555,000 in the same period of 2019. These costs generally remain consistent throughout the year, although they can vary somewhat with changing revenue levels and the timing of certain fixed costs.

Interest

Interest expense for the three and nine months ended September 30, 2020 declined compared to the 2019 comparative figures. The negotiated reductions in borrowing rates and the minimal use of the Corporation's operating line were evident in the third quarter interest costs. These reductions will continue to result in interest savings over the coming quarters.

Net Income

Net income for the third quarter of 2020 was \$284,000, or 6.5 cents per share, which is an improvement over the \$192,000, or 4.4 cents per share, achieved in the same period last year. This improved profitability was a direct result of higher quarterly revenues supported by a modest amount of wage assistance totalling \$73,000 from the

federal government in the third quarter. The Canada Emergency Wage Subsidy (CEWS) program has enabled the Corporation to retain its trained staff through this period of significant variability due to COVID-19. The support received from the CEWS program to date has totalled \$363,000. The Corporation's anticipated revenue levels through to the end of the CEWS program are likely to result in more modest future government support.

5. Income Taxes

At September 30, 2020, no income tax provision has been recognized due to the carryforward of non-capital losses from prior years. The Corporation has accumulated non-capital losses of \$2,679,000 to apply to any taxable income generated in 2020. The remaining non-capital losses are scheduled to expire as follows:

(In thousands of dollars)

2026	\$ 268
2028	91
2034	50
2035	117
2037	925
2038	828
2039	400
Total	\$ 2,679

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, 2020, the Corporation's operations generated cash flow of \$341,000 compared to \$253,000 for the comparative quarter of 2019. This performance has continued to strengthen working capital in 2020.

Cash Flow from Operations

(in thousands of dollars)

<i>For the periods ended September 30</i>	Three months		Nine months	
	2020	2019	2020	2019
Net earnings	284	192	699	346
Add: Interest on long-term debt ¹	31	38	103	108
Add: Depreciation and amortization	27	23	73	66
Add: Other items not involving cash	-	-	3	1
Cash flow from Operations	342	253	878	521

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

Working Capital Position

As at September 30, 2020, the Corporation reported a working capital balance of \$1,164,000, which represented an increase of \$380,000 from the third quarter of 2019 and a working capital ratio of 3.10:1. It is management's belief that the Corporation's working capital position at September 30, 2020 is sufficient to support the current operating requirements of the business. The impact of the COVID-19 outbreak is certainly creating uncertainty, and to date, the government support programs have offset any negative implications on the Corporation.

Working Capital Position

(in thousands of dollars, except ratio calculation)

<i>At the end of</i>	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Current assets	1,717	2,014	1,806	1,147	1,705	2,133	1,410	1,460
Current liabilities	553	1,009	1,172	527	921	1,500	904	968
Working capital	1,164	1,005	634	620	784	633	506	492
Working capital ratio	3.10:1	2.00:1	1.54 :1	2.18 :1	1.85 :1	1.42 :1	1.56 :1	1.51 :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>				
As at	September 30, 2020		December 31, 2019	
	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 three month period ended September 30, 2020 and there was no change to the Corporation's share capital since September 30, 2020.

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, 2020, there were 366,666 options granted, outstanding and exercisable with an average exercise price of \$0.116 (December 31, 2019 - 333,333 options with an average exercise price of \$0.116). There was no activity with respect to the Corporation's stock option plan during the three months ended September 30, 2020 and there was no activity related to the Corporation's stock option plan since September 30, 2020.

8. Borrowing Arrangements and Covenants

Operating credit

The Corporation maintains a demand operating credit facility in the form of an overdraft lending account, which provides an authorized limit of \$850,000 with an interest rate of prime plus 1.75% (December 31, 2019 – prime plus 2.50%). At September 30, 2020, an amount of \$850,000 under this facility was available, of which \$Nil was drawn (December 31, 2019 - \$575,000 available and \$Nil drawn). The credit facility is margined on the Corporation's accounts receivable and inventory balances and secured by a general security agreement over those assets. 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.

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 5.75%; repayable monthly in blended principal and interest installments of \$14,000; 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, 2020, after a one-year period from the last rate reset, the Corporation selected a fourteen-year fixed interest rate term with an interest rate of 6.0% and blended monthly payments of \$15,000. In addition, on June 17, 2020, the lender reduced the interest premium charged on this mortgage by a further 0.25%, resulting in a reduction of the blended monthly payments to \$14,000. The Corporation also elected to defer principle payments on this mortgage for a period of six months from May to October of 2020 to preserve cash in light of the COVID-19 situation. 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 three month period ended September 30, 2020, 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

Three members of Inventronics' senior management team, as a group, control the corporation that owns approximately 69% of the outstanding common shares of the Corporation. These members of the senior management team are members of Inventronics' Board of Directors ("Board") and receive no compensation for their service as Board members. The Corporation pays fixed and variable compensation to its senior management team for their employment services. For the three and nine months ended September 30, 2020, the Corporation expensed \$346,000 (2019 - \$291,000) and \$609,000 (2019 - \$591,000), respectively, related to those compensation arrangements.

11. Governance

The Corporation's Board is comprised of the four members of the Corporation's senior management team and two independent members. The Corporation's Chief Executive Officer and the two independent members comprise the Corporation's Audit Committee.

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.

Reconciliation of EBITDA to Net earnings

(in thousands of dollars)

<i>For the periods ended September 30</i>	Three months		Nine months	
	2020	2019	2020	2019
EBITDA	344	261	887	538
Less: Depreciation and amortization	27	23	73	66
Less: Interest expense	33	46	115	126
Net earnings	284	192	699	346

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 first quarter of 2020 achieved more typical levels of revenue and improved profitability compared to both the first and fourth quarters of 2019. The impact of the COVID-19 outbreak has been quite varied over the second and third quarters of 2020. There is still significant uncertainty regarding the effects of a second wave from the virus and thus the Corporation is being very cautious about the outlook for the future. It is extremely difficult to predict revenue or costs given the restrictions that have been implemented to deal with this situation. The Corporation is a part of the supply chain to the construction and maintenance of communications infrastructures which are essential to supporting the remote work environment that has been established. The key risks in this uncertain environment are changes in government regulation, illness of employees, reduced spending by customers and supply challenges. These risks are being addressed and mitigated to the extent possible but are largely beyond the Corporation's control. The Corporation's balance sheet has strengthened over the course of 2020 and this is expected to provide some cushion to any potential future negative effects from the COVID-19 pandemic.