



INVENTRONICS LIMITED

2019 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended December 31, 2019

2019 Annual and Fourth Quarter Financial Report – December 31, 2019

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated April 7, 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 and twelve month periods ended December 31, 2019. This MD&A should be read in conjunction with the Corporation's 2019 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.

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 conditions and the related impact on the Corporation's customers and/or demand for the Corporation's products; its working capital position and its sufficiency to support the Corporation's operations; its future revenue expectations; the manner in which the Corporation will utilize its property, plant and equipment and the useful lives and residual value of that property, plant and equipment; 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 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 particular needs. This can range from the modification of an existing Inventronics cabinet to the conceptualization and manufacture of a brand 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

(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 income (loss)	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 (loss) per share	4.4¢	0.4¢	1.8¢

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

3. Summary of Financial Results

Revenue in 2019 increased 23% to \$5,656,000 as compared to the \$4,616,000 achieved in 2018. The substantial improvement in revenue was achieved over the first three quarters of the year as a result of general increases in spending by both existing and new customers. The Corporation's products are incorporated in outdoor installations and therefore revenues are subject to seasonal fluctuations. It has been the Corporation's experience that, during times of challenging economic conditions, customers show a tendency to postpone project work normally conducted during winter months to the other seasons. Net income strengthened in 2019 to \$195,000, although the reduced fourth quarter sales volumes significantly impacted the year end total. Working capital continued to strengthen throughout the year and at December 31, 2019 was \$128,000 higher than the prior year end value.

Selected Quarterly Financial Information

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

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	947	1,898	1,678	1,132	1,708	1,282	874	752
Cost of sales as a percentage of Revenue	99%	76%	76%	85%	80%	79%	88%	87%
EBITDA ¹ before Restructuring	(87)	261	197	80	249	216	14	(34)
Net income (loss)	(151)	192	134	20	189	(34)	(47)	(92)
Basic and diluted earnings (loss) per share	(3.5)¢	4.4¢	3.0¢	0.5¢	4.3¢	(0.8)¢	(1.1)¢	(2.0)¢

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

4. Results of Operations

Revenue

Revenue for the year ended December 31, 2019 of \$5,656,000 was \$1,040,000, or 23%, greater than the \$4,616,000 reported for 2018. Fourth quarter revenue of \$947,000 was \$761,000, or 45%, less than the \$1,708,000 reported for the same quarter of 2018. This reduction in fourth quarter activity was a return to traditional levels as compared to the prior year fourth quarter surge that was experienced as a result of new customers building inventory. It is typical for the Corporation to experience seasonal high revenue through the second and third quarter and for the first and fourth quarters to be lower due to reduced construction activity.

Cost of Sales

Cost of sales as a percentage of revenue for the three and twelve month periods ended December 31, 2019 were 99% and 82%, respectively. The very high level of production in the fourth quarter of 2018 resulted in an abnormally low cost of sales rate of 80% and it helped to reduce the overall 2018 cost of sales level to 83%. Throughout 2019, the Corporation experienced elevated raw material costs, most notably sheet steel, which was offset by improved labour utilization due to the increased production volumes.

Selling and Administration Expense

Selling and administration expense as a percentage of revenue for the three and twelve month periods ended December 31, 2019 of 13% and 12%, respectively, was greater than the 6% and 10%, respectively, reported for the same periods of 2018. The substantial increase in fourth quarter revenue in 2018 resulted in the abnormally low percentage for that period. The variable component of certain compensation arrangements is what contributed to the increased annual percentage for these expenses.

Interest

Interest expense for the three and twelve month periods ended December 31, 2019 of \$40,000 and \$167,000, respectively, were relatively consistent with the \$39,000 and \$157,000 reported for the comparative periods of 2018.

Net Income

For the year ended December 31, 2019, the Corporation reported net income of \$195,000, or 4.4 cents per share, compared to net earnings of \$16,000, or 0.4 cents per share, for 2018. The fourth quarter net loss of \$151,000, or 3.5 cents per share, was a substantial reduction from the net income of \$189,000, or 4.3 cents per share, reported

for the fourth quarter of 2018. As noted previously, the fourth quarter of 2018 was very unusual from a revenue and profitability perspective and the quarter over quarter results clearly demonstrate that point. Net income for 2018 also included a one-time non-cash charge of \$187,500.

5. Income Taxes

At December 31, 2019, the Corporation had non-capital losses of \$2,679,000 (2018 - \$2,279,000). There were no non-capital losses that expired in 2019 (2018 - \$0) and 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

For the three months ended December 31, 2019, the Corporation's operations generated negative cash flow before changes in non-cash working capital balances of \$89,000 compared to positive cash flow before changes in non-cash working capital balances of \$243,000 for the same quarter of the prior year. For the year ended December 31, 2019, the Corporation's operations generated positive cash flow before changes in non-cash working capital balances of \$432,000 compared to \$420,000 for 2018.

Cash Flow from Operations

(in thousands of dollars)

<i>For the periods ended December 31</i>	Three months		Twelve months	
	2019	2018	2019	2018
Net income before restructuring (loss)	(151)	189	195	203
Add: Interest on long-term debt ¹	38	33	146	133
Add: Depreciation	24	21	90	83
Add: Other items not involving cash			1	1
Cash flow from Operations	(89)	243	432	420

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, 2019, the Corporation reported a working capital balance of \$620,000, which represented an increase of \$128,000 over the prior year value of \$492,000. This results in a working capital ratio of 2.18:1, which is sufficient to support the projected operating requirements of the business. The impact of the COVID-19 emergency measures is uncertain, but it could certainly put pressure on working capital depending on how the Corporation's customers and suppliers are affected.

Working Capital Position

(in thousands of dollars, except ratio calculation)

<i>At the end of</i>	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Current assets	1,147	1,705	2,133	1,410	1,460	1,538	1,134	895
Current liabilities	527	921	1,500	904	968	1,226	902	649
Working capital	620	784	633	506	492	312	232	246
Working capital ratio	2.18 :1	1.85 :1	1.42 :1	1.56 :1	1.51 :1	1.25 :1	1.26 :1	1.38 :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>	December 31, 2019		December 31, 2018	
	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 years ended December 31, 2019 and 2018, respectively, and there was no change to the Corporation's share capital since December 31, 2019.

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, 2019, there were 400,000 options granted and outstanding with a weighted average exercise price of \$0.116 (December 31, 2018 - 400,000 options with an exercise price of \$0.10). There were 100,000 options cancelled and 100,000 options issued in the year ended December 31, 2019. There was no activity related to the Corporation's stock option plan since December 31, 2019.

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	2019		2018	
	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	65,940	400,000	92,308
Diluted common shares outstanding	4,805,145	4,471,085	4,805,145	4,497,453

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 in the form of an overdraft lending account, which provides an authorized limit of \$850,000 with an interest rate of prime plus 2.50% (2018 – prime plus 2.50%). At December 31, 2019, an amount of \$575,000 under this facility was available, of which none was drawn (December 31, 2018 - \$850,000 available and \$121,000 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. 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 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 7.0%; repayable monthly in blended principal and interest installments of \$16,000; 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, 2019, after a two-year period from the last rate reset, the Corporation selected a one-year fixed interest rate term with an interest rate of 7.0% and blended monthly payments of \$16,000. Prior to April 10, 2019, the interest rate was 6.0% with a monthly blended principal and interest installment of \$15,000. 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

As of August 1, 2018, the Corporation and its former Chief Financial Officer entered into a contract termination agreement that provided for the payment of \$187,500 over 36 months at a rate of \$5,000 per month with no interest. This agreement will be completed on July 1, 2021.

9. Foreign Currency Exposure

For the years ended December 31, 2019 and 2018, the Corporation did not have significant direct exposure to foreign currency risk as more than 90% 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 cash balances.

10. Collective Bargaining Agreement

The Corporation's production labour force is organized under a collective bargaining agreement ("CBA") with the United Steel Workers. The latest CBA was ratified on April 10, 2019 and the agreement is due to expire on December 31, 2021.

11. 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 twelve months ended December 31, 2019, the Corporation expensed \$137,000 (2018 - \$118,000) and \$727,000 (2018 - \$479,000), respectively, related to those compensation arrangements.

12. 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.

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 income, as it provides investors with an indication of cash earnings prior to debt service, capital expenditure, income tax and non-cash items. Readers are cautioned, however, that EBITDA should not be construed as an alternative to net income 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 Income (Loss)

(in thousands of dollars)

For the periods ended December 31	Three months		Twelve months	
	2019	2018	2019	2018
EBITDA	(87)	249	452	445
Less: Depreciation and amortization	24	21	90	83
Less: Interest expense	40	39	167	158
Less: Restructuring costs	-	-	-	188
Net income (loss)	(151)	189	195	16

14. 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.

In the first half of 2019, the Corporation experienced significantly increased revenues compared to the same period in the prior year due mainly to a recovery to normal sales levels and new business from new customers. This trend continued through the second and third quarters, resulting in improved revenues and profits. Revenue in the fourth quarter of 2019 was significantly decreased as a result of seasonal declines in activity to more normal fourth

quarter levels. The first quarter of 2020 is projected to achieve modest revenue and profitability as activity follows the more traditional seasonal pattern of general outside construction in Canada.

The impact of the COVID-19 outbreak is creating much uncertainty for the second and third quarters of 2020. It is extremely difficult to predict revenue or costs given the emergency measures 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 is currently categorized as essential. If this sector continues to follow their capital spending budgets, the Corporation should continue to receive orders in a relatively consistent fashion. The key risks in this 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.