



# **INVENTRONICS LIMITED**

**2021 THIRD QUARTER**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**For the period ended September 30, 2021**

## 2021 Third Quarter Financial Report – September 30, 2021 Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated October 21, 2021 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, 2021. 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, 2020, which are available on the SEDAR website at [www.sedar.com](http://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. Corporate 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 energy 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 also possible to find Inventronics enclosures in other international infrastructures. 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           | 2020  | 2019  | 2018  |
|---|-------|-------|-------|
| Revenue                                   | 5,640 | 5,656 | 4,616 |
| EBITDA <sup>1</sup>                       | 930   | 452   | 257   |
| Net earnings                              | 684   | 195   | 16    |
| Total assets                              | 3,742 | 3,292 | 3,637 |
| Long-term debt, excluding current portion | 2,079 | 2,108 | 2,143 |
| Basic and diluted earnings per share      | 15.5¢ | 4.4¢  | 0.4¢  |

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 these periods. 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)

|   | 2021    |         |          | 2020   |         |         |         | 2019   |
|---|---------|---------|----------|--------|---------|---------|---------|--------|
|   | Q3      | Q2      | Q1       | Q4     | Q3      | Q2      | Q1      | Q4     |
| Revenue                                     | \$3,348 | \$2,776 | \$ 1,800 | \$ 955 | \$2,050 | \$1,591 | \$1,044 | \$ 947 |
| Cost of sales as a percentage of Revenue    | 78%     | 72%     | 76%      | 91%    | 78%     | 80%     | 79%     | 99%    |
| EBITDA <sup>1</sup>                         | 646     | 508     | 243      | 41     | 344     | 435     | 110     | (87)   |
| Net earnings (loss)                         | 967     | 440     | 181      | (15)   | 284     | 371     | 44      | (151)  |
| Basic and diluted earnings (loss) per share | 20.8¢   | 9.8¢    | 4.0¢     | (0.4)¢ | 6.5¢    | 8.4¢    | 1.0¢    | (3.5)¢ |

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

## 4. Results of Operations

### Revenue

Revenue for the third quarter of 2021 of \$3,348,000 was \$1,298,000, or 63%, higher than the \$2,050,000 reported for the comparative quarter of 2020. Revenue for the nine months of 2021 totalling \$7,924,000 was \$3,239,000, or 69%, higher than the \$4,685,000 reported for the same period of 2020. Revenue levels for 2021 continue to be positively impacted by some major communications infrastructure upgrades occurring in Canada and the United States. These projects are with a number of key customers improving their networks to address consumer demand for increased bandwidth and changing technology requirements.

### Cost of Sales

Cost of sales as a percentage of revenue for the three months ended September 30, 2021 of 78% was consistent with the comparative period of 2020. Year to date cost of sales of \$5,992,000, or 76% of revenue, reflects the positive impact that higher production volumes is having on labour and overhead efficiencies. Material costs have risen due to COVID-related facility shutdowns and growing steel demand as economic conditions improve throughout North America. These material cost increases are anticipated to have a dampening effect on margins until steel prices begin to moderate in early 2022.

### Selling and Administration Expense

Selling and administrative expenses for the third quarter of 2021 of \$118,000 was \$84,000 lower than the \$202,000 for the comparative period of 2020. This decrease was attributable to lower variable compensation in the quarter as a result of the annual maximums having been reached at the end of the second quarter. This brings the 2021 nine-month total to \$641,000 compared to \$536,000 in the same period of 2020.

### Net Earnings

Net earnings for the third quarter of 2021 were \$967,000, or 20.8 cents per share, which is a substantial improvement of \$683,000, or 14.3 cents per share, over the same period last year. This improved profitability was a direct reflection of the increased revenue levels achieved in the quarter coupled with the recognition of the future tax benefit of non-capital loss carryforwards previously reported in the notes to the financial statements. The operating performance in 2021 is substantially improved from those achieved in 2020, especially when considering the 2020 net earnings were supported by \$363,000 in COVID-19 related government support.

## 5. Income Taxes

At December 31, 2020, the Corporation had non-capital losses of \$2,640,000 (2019 - \$2,679,000). There were no non-capital losses that expired in 2020 (2019 - \$0) and the remaining non-capital losses are scheduled to expire as follows:

(In thousands of dollars)

|              |                 |
|--------------|-----------------|
| 2026         | \$ 229          |
| 2028         | 91              |
| 2034         | 50              |
| 2035         | 117             |
| 2037         | 925             |
| 2038         | 828             |
| 2039         | 400             |
| <b>Total</b> | <b>\$ 2,640</b> |

Since it has been determined that it is probable these non-capital losses will be used to reduce future tax obligations, management concluded that under IFRS reporting guidelines it is appropriate to record the tax value of these losses as a deferred tax asset on the balance sheet. The value recognized was determined at the Corporation's statutory tax rate of 27%, resulting in the recording of a deferred tax asset of \$712,000. The year to date earnings then had a tax provision applied of \$323,000, which reduced the asset value to \$389,000 at September 30, 2021.

## 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, 2021, the Corporation's operations generated cash flow of \$646,000 compared to \$342,000 for the comparative quarter of 2020. This brings the year to date cash generated from operations to a total of \$1,392,000, which is well in excess of typical operating requirements.

### Cash Flow from Operations

(in thousands of dollars)

| For the periods ended June 30           | Three months  |               | Nine months     |               |
|---|---------------|---------------|-----------------|---------------|
|   | 2021          | 2020          | 2021            | 2020          |
| Net earnings                            | \$ 967        | \$ 284        | \$ 1,587        | \$ 699        |
| Interest on long-term debt <sup>1</sup> | 31            | 31            | 92              | 103           |
| Depreciation and amortization           | 35            | 27            | 99              | 73            |
| Future tax expense (recovery)           | (389)         | -             | (389)           | -             |
| Other items not involving cash          | 2             | -             | 3               | 3             |
| <b>Cash flow from Operations</b>        | <b>\$ 646</b> | <b>\$ 342</b> | <b>\$ 1,392</b> | <b>\$ 878</b> |

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, 2021, the Corporation reported a working capital balance of \$1,344,000, which is net of the \$961,000 special dividend announced on September 22, 2021. It is management's belief that the Corporation's working capital position at September 30, 2021 is sufficient to support the future operating requirements of the business.

### Working Capital Position

(in thousands of dollars, except ratio calculation)

| At the end of         | 2021    |         |          | 2020     |         |         |         | 2019    |
|-----------------------|---------|---------|----------|----------|---------|---------|---------|---------|
|                       | Q3      | Q2      | Q1       | Q4       | Q3      | Q2      | Q1      | Q4      |
| Current assets        | \$3,478 | \$2,886 | \$ 2,801 | \$ 1,432 | \$1,717 | \$2,014 | \$1,806 | \$1,147 |
| Current liabilities   | 2,134   | 1,201   | 1,565    | 354      | 553     | 1,009   | 1,172   | 527     |
| Working capital       | 1,344   | 1,685   | 1,236    | 1,078    | 1,164   | 1,005   | 634     | 620     |
| Working capital ratio | 1.63 :1 | 2.40 :1 | 1.79 :1  | 4.05 :1  | 3.10:1  | 2.00:1  | 1.54 :1 | 2.18 :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.

| <b>Share Capital</b>                             |                           |               |                          |               |
|--|---------------------------|---------------|--------------------------|---------------|
| <i>(dollar amounts in thousands)</i>             |                           |               |                          |               |
| <b>As at</b>                                     | <b>September 30, 2021</b> |               | <b>December 31, 2020</b> |               |
|  | <b>Shares</b>             | <b>Amount</b> | <b>Shares</b>            | <b>Amount</b> |
| Authorized, issued and outstanding common shares | 4,805,145                 | \$ 1,191      | 4,405,145                | \$ 2,276      |

### **Reduction of stated capital**

At the Corporation's annual general meeting held on August 18, 2021, shareholder approval was received to reduce the stated capital of the Corporation by \$1,153,000. The purpose of reducing the stated capital of the Common Shares is to increase the difference between the realizable value of the Corporation's assets and the aggregate of the Corporation's liabilities and the stated capital of the Common Shares, thereby providing the Corporation with additional financial flexibility.

### **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, 2021, there were no options outstanding (December 31, 2020 - 400,000 options with an average exercise price of \$0.116). During the nine-month period ended September 30, 2021, there were 300,000 options exercised at an exercise price of \$0.10 per share and 100,000 options exercised at an exercise price of \$0.165 per share to acquire a total of 400,000 common shares. Since September 30, 2021, no further options have been granted.

## 8. Borrowing Arrangements and Covenants

### **Operating credit**

The Corporation maintains a demand operating credit facility in the form of an overdraft lending account with an interest rate of prime plus 1.75% (December 31, 2020 – prime plus 1.75%). At September 30, 2021, the facility had an authorized limit of \$850,000 that was fully available, and \$Nil was drawn (December 31, 2020 - \$1,100,000 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 credit facility agreement does not contain any financial covenants that must be periodically tested. The Corporation is in compliance with all obligations pertaining to this agreement.

### **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. 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 agreement.

## 9. Foreign Currency Exposure

For the three-month period ended September 30, 2021, 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 63% 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, 2021, the Corporation expensed \$253,000 (2020 - \$346,000) and \$766,000 (2020 - \$609,000), 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 June 30</i> | <b>Three months</b> |             | <b>Nine months</b> |             |
|--------------------------------------|---------------------|-------------|--------------------|-------------|
|                                      | <b>2021</b>         | <b>2020</b> | <b>2021</b>        | <b>2020</b> |
| EBITDA                               | \$ 646              | \$ 342      | \$1,392            | \$ 878      |
| Interest expense                     | (31)                | (31)        | (92)               | (103)       |
| Depreciation and amortization        | (35)                | (27)        | (99)               | (73)        |
| Future tax expense (recovery)        | 389                 | -           | 389                | -           |
| Other                                | (2)                 | -           | (3)                | (3)         |
| Net earnings                         | \$ 967              | \$ 284      | \$1,587            | \$ 699      |

## 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.

Revenue and profitability for 2021 has improved significantly compared to the results achieved over the last several years. The demand for internet bandwidth and changing communication technologies is driving major infrastructure investments by various service providers in Canada and the USA. These investments, which include the Corporation's enclosures to house the related electronics and control systems, are projected to continue for the foreseeable future and the Corporation has increased its production capacity to keep pace. The constraints placed on various suppliers through the worst of the COVID-19 pandemic have resulted in certain material shortages that are continuing to impact operations. The Corporation is anticipating that these supply chain challenges will level off in the coming quarters and there will be no detrimental effects on the current infrastructure building effort.