



INVENTRONICS LIMITED

2020 ANNUAL FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended December 31, 2020

2020 Annual and Fourth Quarter Financial Report – December 31, 2020

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated April 13, 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 twelve month periods ended December 31, 2020. This MD&A should be read in conjunction with the Corporation's 2020 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; the expectation of the Corporation accessing various government assistance programs in 2021; 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	2020	2019	2018
Revenue	5,640	5,656	4,616
EBITDA ¹	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 (loss) per share	15.5¢	4.4¢	0.4¢

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

3. Summary of Financial Results

Revenue in 2020 remained virtually unchanged at \$5,640,000 as compared to the \$5,656,000 achieved in 2019. This was a very positive result considering the worldwide economic turmoil generated by the Covid-19 pandemic. The upgrading of communications infrastructure to support the requirement for increased internet bandwidth during this period of heightened remote access and online communication resulted in a welcome surge in demand for enclosures. The Corporation's customer base is continuing to expand in Canada and the United States of America, which will further expand its geographic reach. Operating protocols to ensure staff safety allowed manufacturing to continue uninterrupted throughout the year. Net earnings were significantly improved for the 2020 fiscal year to \$684,000 from \$195,000 in 2019. Working capital was increased by \$458,000 for the 2020 fiscal year to \$1,078,000 from \$620,000 in 2019.

Selected Quarterly Financial Information

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

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	955	2,050	1,591	1,044	947	1,898	1,678	1,132
Cost of sales as a percentage of Revenue	91%	78%	80%	79%	99%	76%	76%	85%
EBITDA ¹	41	344	435	110	(87)	261	197	80
Net earnings (loss)	(15)	284	371	44	(151)	192	134	20
Basic and diluted earnings (loss) per share	(0.4)¢	6.5¢	8.4¢	1.0¢	(3.5)¢	4.4¢	3.0¢	0.5¢

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

4. Results of Operations

Revenue

Revenue for the year ended December 31, 2020 of \$5,640,000 was just \$16,000, or 0.3%, less than the \$5,656,000 achieved in 2019. Fourth quarter revenue of \$955,000 was \$8,000, or 0.8%, higher than the \$947,000 reported for the same quarter of 2019. 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. The relative strength in revenue for 2020 is anticipated to continue as business and personal habits evolve with respect to remote work and online communications. 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 and twelve month periods ended December 31, 2020 were 91% and 81%, respectively. The cost of sales percentage of revenue improved by 1% compared to the 82% figure recorded in 2019. Overall, material costs were somewhat elevated due to the higher cost of sheet steel and labour costs were negatively impacted by the operating restrictions implemented in response to the COVID-19 crisis. The fourth quarter operating performance improvement over 2019 was primarily attributable to product mix and it significantly influenced the year end improvement in the cost of sales as a percentage of revenue for the full year. Government assistance through the Canada Emergency Wage Subsidy (CEWS) helped to offset the labour cost inefficiencies and is discussed further in the Net Earnings section of this report.

Selling and Administration Expense

Selling and administration expense as a percentage of revenue for the three and twelve month periods ended December 31, 2020 remained consistent at 11% for both periods. This compared favourably to the 13% and 12% achieved in the respective periods of 2019. This demonstrates the fixed nature of these expenses and they are not expected to vary materially from quarter to quarter at the current level of activity.

Interest

Interest expense for the three and twelve month periods ended December 31, 2020 of \$28,000 and \$143,000, respectively, were lower than the \$40,000 and \$167,000 reported for the comparative periods of 2019. These reduced borrowing costs were the result of negotiated reductions in both short term and long term interest rates earlier in 2020 and the minimal use of the Corporation's operating line through the year.

Net Earnings

For the year ended December 31, 2020, the Corporation reported net earnings of \$684,000, or 15.5 cents per share, compared to net earnings of \$195,000, or 4.4 cents per share, for 2019. The fourth quarter net loss of \$15,000, or 0.3 cents per share, was a substantial improvement over the net loss of \$151,000, or 3.4 cents per share, reported for the fourth quarter of 2019. This improved profitability for the year was a direct result of COVID-19 government wage support totalling \$398,000 in 2020. The Canada Emergency Wage Subsidy (CEWS) program enabled the Corporation to retain its trained staff through the periods of significant variability due to the pandemic. The Corporation's anticipated revenue levels through to the end of the CEWS program in June 2021 are likely to result in more modest future government support.

5. Income Taxes

At December 31, 2020, the Corporation had non-capital losses of \$2,640,000 (2019 - \$2,679,000). No non-capital losses 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
<u>Total</u>	<u>\$ 2,640</u>

6. Liquidity and Capital Resources

Cash Flow from Operations

The following table details the significant improvement in cash flow from operations for both the fourth quarter and the 2020 fiscal year as compared to the same periods in 2019.

Cash Flow from Operations

(in thousands of dollars)

For the periods ended December 31	Three months		Twelve months	
	2020	2019	2020	2019
Net earnings (loss)	(15)	(151)	684	195
Add: Interest on long-term debt ¹	31	38	134	146
Add: Depreciation	29	24	102	90
Add: Other items not involving cash	2	-	5	1
<u>Cash flow from Operations</u>	<u>47</u>	<u>(89)</u>	<u>925</u>	<u>432</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, 2020, the Corporation reported a working capital balance of \$1,078,000, which represented an increase of \$458,000 over the prior year value of \$620,000. This results in a working capital ratio of 4.05:1, which is substantially stronger than in prior years and is sufficient to support the projected operating requirements of the business.

Working Capital Position

(in thousands of dollars, except ratio calculation)

At the end of	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Current assets	1,432	1,717	2,014	1,806	1,147	1,705	2,133	1,410
Current liabilities	354	553	1,009	1,172	527	921	1,500	904
Working capital	1,078	1,164	1,005	634	620	784	633	506
Working capital ratio	4.05 :1	3.10:1	2.00:1	1.54 :1	2.18 :1	1.85 :1	1.42 :1	1.56 :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 plus a \$250,000 unmarginated bulge for the period of November 1, 2020 to April 30, 2021. The credit facility is marginated 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, 2020		December 31, 2019	
	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, 2020 and 2019, respectively. Subsequent to the year end, 100,000 options were exercised at a price of \$0.10 per share, resulting in an increase in shares to 4,505,145 and share capital to \$2,286.

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, 2020, there were 400,000 options granted and outstanding with a weighted average exercise price of \$0.116 (December 31, 2019 - 400,000 options with an exercise price of \$0.116). Subsequent to the year end, 100,000 options were exercised at a price of \$0.10 per share resulting in 300,000 options outstanding as at the date hereof.

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	2020		2019	
	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	80,661	400,000	65,940
Diluted common shares outstanding	4,805,145	4,485,806	4,805,145	4,471,085

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 plus an unmarginated bulge of \$250,000 for the period of November 1, 2020 to April 30, 2021 and an interest rate of prime plus 1.75% (2019 – prime plus 2.50%). At December 31, 2020, an amount of \$1,016,000 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. There are no financial covenants pertaining to this demand operating credit facility and the Corporation is in compliance with all 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 14-year fixed interest rate term with an interest rate of 5.75% and blended monthly payments of \$14,000. Prior to April 10, 2020, the interest rate was 7.0% with a monthly blended principal and interest installment of \$16,000. 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 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, 2020 and 2019, 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, 2020, the Corporation expensed \$118,000 (2019 - \$137,000) and \$728,000 (2019 - \$727,000), 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 Earnings (Loss)

(in thousands of dollars)

For the periods ended December 31	Three months		Twelve months	
	2020	2019	2020	2019
EBITDA	41	(87)	930	452
Less: Depreciation and amortization	29	24	102	90
Less: Interest expense	27	40	144	167
Net earnings (loss)	(15)	(151)	684	195

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.

The impact of the COVID-19 pandemic has been quite varied over the course of 2020 and has created a highly unpredictable environment. It is extremely difficult to forecast revenue or costs given the restrictions that continue to evolve in response to the pandemic. The Corporation's operations were uninterrupted through the uncertainty created by the pandemic as a result of thoughtful planning and staff observation of public health orders. Achieving revenue levels comparable to 2019 and profitability surpassing 2019 were significant accomplishments for the entire Inventronics team. The government support received through the year enabled the Corporation to retain its personnel in preparation for an expected growth in demand for enclosures in 2021.

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, erratic 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 strengthened through 2020 and this is expected to provide some cushion to any potential future variability in demand.

General expectations are for a recovery through 2021 in the markets that the Corporation services. The changes to work environments and individual communication habits as a result of the pandemic are anticipated to drive modifications to the communications infrastructure across North America for the foreseeable future. This should result in opportunities for Inventronics to grow and prosper.