



INVENTRONICS LIMITED

2021 ANNUAL FINANCIAL REPORT

MANAGEMENT DISCUSSION & ANALYSIS

For the year ended December 31, 2021

2021 Annual and Fourth Quarter Financial Report – December 31, 2021

Management Discussion and Analysis

This Management Discussion and Analysis (“MD&A”) is dated March 25, 2022 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, 2021. This MD&A should be read in conjunction with the Corporation’s 2021 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”) as issued by the International Accounting Standards Board, 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. The forward-looking information contained in this report reflects several material factors and expectations and assumptions of Inventronics including, without limitation: that Inventronics will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax and regulatory regimes; and the continued availability of adequate debt financing and cash flow from operations to fund its operations. 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 completely 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	2021	2020	2019
Revenue	9,843	5,640	5,656
EBITDA ¹	1,662	930	452
Net earnings	1,890	684	195
Total assets	5,228	3,742	3,292
Long-term debt, excluding current portion	2,049	2,079	2,108
Basic and diluted earnings per share	41.0¢	15.5¢	4.4¢

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

3. Summary of Financial Results

Revenue in 2021 increased substantially to \$9,843,000 as compared to \$5,640,000 in 2020, which is a 75% increase year over year. The upgrading of communications infrastructure to support the requirement for increased internet bandwidth is driving this surge in demand for enclosures. The Corporation's customer base is continuing to expand in Canada and the United States of America (USA), which will enhance its geographic reach. Net earnings were also significantly higher in the 2021 fiscal year at \$1,890,000 as compared to \$684,000 in 2020 primarily as a result of the increased sales activity. Working capital improved to \$1,527,000, notwithstanding the payment of a special dividend in the amount of \$961,000 in the fourth quarter.

Selected Quarterly Financial Information

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

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	1,919	3,348	2,776	1,800	955	2,050	1,591	1,044
Cost of sales as a percentage of Revenue	81%	78%	72%	76%	91%	78%	80%	79%
EBITDA ¹	272	644	504	243	41	344	435	110
Net earnings (loss)	302	967	440	181	(15)	284	371	44
Basic and diluted earnings (loss) per share	6.6¢	20.8¢	9.8¢	4.0¢	(0.4)¢	6.5¢	8.4¢	1.0¢

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

4. Results of Operations

Revenue

Revenue for the year ended December 31, 2021 of \$9,843,000 was \$4,203,000, or 75%, more than the \$5,640,000 achieved in 2020. Fourth quarter revenue of \$1,919,000 was \$964,000, or 101%, higher than the \$955,000 reported for the same quarter of 2020. 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 strength in revenue for 2021 was driven by the continuing build-out of communications infrastructure in Canada and the USA in support of the demand for bandwidth to address the growth in video streaming, online gaming and remote work connectivity. These investments are forecast to continue for several years in both countries to improve communication services throughout the more remote regions. The sales team is monitoring all accounts carefully to remain positioned to respond rapidly to customer demand changes as these build-outs progress.

Cost of Sales

Cost of sales for the year ended December 31, 2021 was \$7,547,000 (77% of revenue) compared to \$4,569,000 (81% of revenue) in 2020. The 2021 fourth quarter total was \$1,556,000 (81% of revenue) compared to \$871,000 (91% of revenue) for the same period of 2020. The fourth quarter cost of sales result improved compared to the prior year due to the increased volume of production and the effect this has on the distribution of fixed costs. Overall, material costs were elevated due to the higher cost of sheet steel, but selling price increases generally offset these input cost challenges. In addition, longer production runs due to the increased demand helped to improve certain operating efficiencies. Supply chain disruptions were held to a minimum by choosing to increase inventory levels through this period of supply uncertainty. In 2020, the Corporation took advantage of certain government support programs to address pandemic related cost increases and received a total of \$398,000 in support. The increase in 2021 revenue made it unnecessary to rely upon those government programs any longer.

Selling and Administration Expense

Selling and administration expense for the 2021 fiscal year was \$771,000 compared to \$642,000 in 2020. These expenses for the fourth quarter of 2021 were \$129,000 compared to \$106,000 for the same period of 2020. The 2021 increase in costs were spread across various expense categories to support the substantial increase in revenue.

Interest

Interest expense for the three and twelve month periods ended December 31, 2021 of \$59,000 and \$156,000, respectively, were higher than the \$28,000 and \$143,000 reported for the comparative periods of 2020. In the fourth quarter, one-time financing costs incurred a number of years ago were chosen to be written off and this increased the interest expense totals by \$21,000.

Net Earnings

For the year ended December 31, 2021, the Corporation reported net earnings of \$1,890,000, or 41.0 cents per share, compared to net earnings of \$684,000, or 15.5 cents per share, for 2020. The fourth quarter net earnings of \$302,000, or 6.6 cents per share, was an improvement over the net loss of \$15,000, or 0.4 cents per share, reported for the fourth quarter of 2020. This improved profitability for the year was a result of the increased revenue discussed previously coupled with the decision to recognize prior year tax losses through the financial statements as described in the next section – Income Taxes.

5. Income Taxes

At December 31, 2021, the Corporation had non-capital losses of \$1,457,000 (2020 - \$2,640,000). In prior years, these tax losses were presented through note disclosure only due to the uncertainty around their eventual claim against future taxable profits. In 2021, the profitability of the Corporation made it necessary to recognize these tax losses through the financial statements and this resulted in a net deferred tax recovery of \$511,000.

No non-capital losses expired in 2021 (2020 - \$0) and the remaining losses are scheduled to expire as follows:

(In thousands of dollars)

2037	\$	229
2038		828
2039		400
<u>Total</u>	\$	<u>1,457</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 2021 fiscal year as compared to the same periods in 2020.

Cash Flow from Operations

(in thousands of dollars)

For the periods ended December 31	Three months		Twelve months	
	2021	2020	2021	2020
Net earnings (loss)	302	(15)	1,890	684
Add: Interest on long-term debt ¹	37	31	129	134
Add: Depreciation	39	29	138	102
Add: Income tax	(128)	-	(511)	-
Add: Other items not involving cash	22	2	24	5
Cash flow from Operations	272	47	1,670	925

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

Working Capital Position

As at December 31, 2021, the Corporation reported a working capital balance of \$1,527,000, which represented an increase of \$449,000 over the prior year value of \$1,078,000. This working capital position is net of the special dividend paid in the fourth quarter totalling \$961,000. The year end working capital ratio of 2.71:1 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	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Current assets	2,419	3,478	2,886	2,801	1,432	1,717	2,014	1,806
Current liabilities	892	2,134	1,201	1,565	354	553	1,009	1,172
Working capital	1,527	1,344	1,685	1,236	1,078	1,164	1,005	634
Working capital ratio	2.71 :1	1.63 :1	2.40 :1	1.79 :1	4.05 :1	3.10:1	2.00:1	1.54 :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 unmarginated operating credit facility limit is \$850,000. The credit facility is secured against 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, 2021		December 31, 2020	
	Shares	Amount	Shares	Amount
As at				
Outstanding, beginning of the period	4,405,145	\$ 2,276	4,405,145	\$ 2,276
Reduction of stated capital	-	(1,153)	-	-
Options exercised	400,000	68	-	-
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. In the twelve months ended December 31, 2021, there were 300,000 options exercised at a price of \$0.10 per share and 100,000 options exercised at a price of \$0.165 per share. In addition, contributed surplus of \$21,000 was reclassified to share capital in relation to the option expense previously recognized on the exercised options. As at December 31, 2021, there were no stock options granted and outstanding (2020 – 400,000). On February 25, 2022, 450,000 stock options were granted to Officers and Directors of the Corporation at an exercise price of \$1.65 per share, which remain outstanding at the reporting date.

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	December 31, 2021		December 31, 2020	
	Number of shares	Weighted average number of shares	Number of shares	Weighted average number of shares
Issued and outstanding common shares	4,805,145	4,614,486	4,405,145	4,405,145
Stock options outstanding ⁽¹⁾	-	-	400,000	80,661
Diluted common shares outstanding	4,805,145	4,614,486	4,805,145	4,485,806

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.

Dividend

On September 22, 2021, the Corporation's Board of Directors passed a resolution declaring a special dividend of \$0.20 per share payable on November 3, 2021 in the amount of \$961,000.

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 and an interest rate of prime plus 1.75% (2020 – prime plus 1.75%). At December 31, 2021, an amount of \$850,000 under this facility was available, of which \$Nil was drawn (2020 - \$1,016,000 available and \$Nil drawn). The credit facility is unmarginated although the lender does retain a general security agreement over the Corporation's accounts receivable and inventory balances. There are no financial covenants for this operating credit facility and 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 2043; 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 agreement.

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 was completed on July 1, 2021.

9. Foreign Currency Exposure

For the years ended December 31, 2021 and 2020, the Corporation did not have significant direct exposure to foreign currency risk as the 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 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 previous CBA expired on December 31, 2021 and a new 5-year CBA was ratified on March 15, 2022 with an expiry date of December 31, 2026.

11. Related Party Transactions

Three members of Inventronics' senior management team, as a group, control the corporation that owns approximately 72% 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 four-person senior management team for their employment services. For the three and twelve months ended December 31, 2021, the Corporation expensed \$117,000 (2020 - \$118,000) and \$892,000 (2020 - \$728,000), 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 earnings, 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 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 (Loss)

(in thousands of dollars)

<i>For the periods ended December 31</i>	Three months		Twelve months	
	2021	2020	2021	2020
EBITDA	272	41	1,663	930
Less: Depreciation	39	29	138	102
Less: Interest expense	59	27	156	144
Less: Income tax	(128)	-	(521)	-
Net earnings (loss)	302	(15)	1,890	684

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 Corporation is a part of the supply chain to the construction and maintenance of communications infrastructures in North America which are essential in supporting the video streaming, online gaming, and remote work environment that has been established. The continuing digitization of the economy and the rapid expansion of the metaverse are expected to play a significant part in the demand for the Corporation's products for the foreseeable future. The key risks in this uncertain environment are changes in government regulation, employee availability, customer spending patterns and supply chain 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 2021 and this is expected to provide a cushion to any potential future variability in demand.

Inventronics' sales growth in 2021 was driven by the greatly expanded construction of internet infrastructure and particularly the laying of fibre optic lines into the large rural and smaller centre regions of North America. This build-out is a direct response to strong and growing demand for bandwidth from consumers who want access to video streaming, gaming and work from home capability. These trends have been increasing for several years and have surged during the Covid 19 pandemic. Inventronics' management expect this demand to continue for a number of years and level off at significantly greater annual revenues than those achieved over the last decade because of the Corporation's much larger customer base and market exposure.