



INVENTRONICS LIMITED

2023 THIRD QUARTER FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

For the period ended September 30, 2023

2023 Third Quarter Financial Report – September 30, 2023 Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated November 28, 2023 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 nine month period ended September 30, 2023. 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, 2022, 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, the Corporation's expectations, perceptions and/or beliefs with respect to: 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 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 not uncommon 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 specialty requirements, the Corporation designs and manufactures products 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 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. 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

	2022	2021	2020
Revenue	14,245	9,985	5,640
EBITDA ¹	3,327	1,665	930
Net earnings	2,093	1,890	684
Total assets	6,027	5,228	3,742
Long-term debt, excluding current portion	1,989	2,049	2,079
Basic earnings per share	43.4¢	41.0¢	15.5¢

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

3. Summary of Financial Results

The following table illustrates the historic seasonal fluctuations of the Corporation's revenues and profitability. The variability of weather conditions in the first and fourth quarters often limit the volume of projects that can be completed during these periods.

Selected Quarterly Financial Information

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

	2023			2022			2021	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	1,463	3,103	3,335	2,739	3,450	4,269	3,787	1,951
Cost of sales as a percentage of revenue	97%	73%	73%	77%	72%	67%	69%	81%
EBITDA ¹	(33)	563	550	533	841	1,204	749	272
Net earnings (loss)	(94)	346	325	252	536	803	502	303
Basic earnings per share	(1.9)¢	7.1¢	6.7¢	5.2¢	11.1¢	16.7¢	10.4¢	6.6¢

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

4. Results of Operations

Revenue

Revenue for the third quarter of 2023 of \$1,463,000 was 58% lower than the \$3,450,000 reported for the comparative quarter of 2022. Revenue for the nine months of 2023 totalling \$7,900,000 was \$3,474,000, or 31%, lower than the \$11,374,000 reported for the same period of 2022. Customers are continuing to normalize their inventory levels and adjusting their purchase requirements to their planned project installation pace. The pace of the broadband buildout, which has driven revenue increases for the past couple of years has slowed significantly as a result of interest rate increases and the effect they are having on capital spending. Indications being received from significant industry participants are that the installations will likely take longer to complete throughout Canada and the USA.

Cost of Sales

Cost of sales as a percentage of revenue of 97% for the three months ended September 30, 2023, was significantly higher than the 72% reported for the comparative period of 2022. The rapid decline in revenue through the third quarter resulted in significant downsizing costs being incurred. Year to date cost of sales of 77% are also tracking much higher than the 70% level achieved in the nine months of last year. Increased labour costs and rising fixed operating costs due to inflationary pressures have had a negative effect on margins. Management is closely monitoring the order pace and other supply chain variations to right-size its labour requirements and respond to this decline in activity.

Selling and Administration Expense

Selling and administrative expenses for the third quarter were reduced to \$151,000 for 2023 from \$177,000 for the same period of 2022. Efforts are continuing to identify and implement additional cost saving measures to reduce these costs further until evidence of a turnaround is apparent. Overall, the year-to-date expenses of \$907,000 in 2023 are slightly higher than the \$891,000 incurred in 2022.

Interest

Interest expense for the three and nine months ended September 30, 2023 of \$27,000 and \$81,000, respectively were relatively consistent with the \$27,000 and \$88,000 reported for the comparative periods of the prior year. The interest rates locked in on the long-term debt in 2021 and the minimal operating borrowings accounted for these results, notwithstanding the rising interest rate environment that has occurred over the past twelve months.

Net Earnings

Net loss for the third quarter of 2023 of \$94,000, or 1.9 cents per share, was lower than the net earnings of \$536,000, or 11.1 cents per share earned in the same period last year. Net earnings for the nine months ended September 30, 2023 of \$576,000, or 11.8 cents per share, was lower than the \$1,841,000, or 38.3 cents per share, earned in the same period last year. The decline in revenues combined with the previously noted downsizing costs and margin compression resulted in the reduced profitability.

5. Liquidity and Capital Resources

Cash Flow from Operations

For the three months ended September 30, 2023, the Corporation's operations generated cash flow of \$2,000 compared to \$673,000 for the comparative quarter of the prior year. The year-to-date cash generation of \$857,000 is significantly lower than the \$2,627,000 for the same period of 2022.

Cash Flow from Operations

(in thousands of dollars)

For the periods ended September 30	Three months		Nine months	
	2023	2022	2023	2022
Net earnings (loss)	(94)	536	576	1,841
Add: Interest on long-term debt ¹	26	27	80	86
Add: Depreciation	50	34	139	99
Add: Option expense	20	45	62	90
Add: Deferred income tax	-	31	-	511
Cash flow from Operations	2	673	857	2,627

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

Working Capital Position

As at September 30, 2023, the Corporation reported a working capital balance of \$2,153,000, which resulted in a working capital ratio of 3.80:1. It is management's belief that the Corporation's working capital position at September 30, 2023 is sufficient to support the current operating requirements of the business.

Working Capital Position

(in thousands of dollars, except ratio calculation)

At the end of	2023			2022				2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Current assets	2,921	2,983	3,758	3,536	5,085	4,513	4,182	2,419
Current liabilities	768	1,176	1,477	1,142	2,885	1,229	2,037	892
Working capital	2,153	1,807	2,281	2,394	2,200	3,284	2,145	1,527
Working capital ratio	3.80 :1	2.54 :1	2.54 :1	3.10 :1	1.76 :1	3.67 :1	2.05 :1	2.71 :1

Working Capital Liquidity

Working capital liquidity for operating purposes has been provided through positive cash flow from operations. At September 30, 2023, the Corporation's unmarginated operating credit facility limit was \$1,200,000 and is secured by a general assignment of trade accounts receivable and inventory (see "Borrowing Arrangements" below).

6. 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

(dollar amounts in thousands)

As at	September 30, 2023		December 31, 2022	
	Shares	Amount	Shares	Amount
Outstanding, beginning of the period	4,838,145	\$ 1,266	4,805,145	\$ 1,191
Options exercised	33,000	71	33,000	75
Authorized, issued and outstanding common shares	4,871,145	\$ 1,337	4,838,145	\$ 1,266

Stock option plan

Inventronics maintains a stock option plan providing the Corporation with the ability to grant options to employees and directors to purchase one common share of the Corporation per option. At September 30, 2023, there were 384,000 options outstanding with an exercise price of \$1.65 per share (December 31, 2022 – 417,000). In the first quarter of 2023, there were 33,000 options exercised, which contributed to share capital \$54,000 plus \$17,000 of reclassified contributed surplus in relation to the option expense previously recognized. There was no activity related to the Corporation's stock option plan during the third quarter of 2023 or since September 30, 2023.

7. Borrowing Arrangements

Credit facilities

The Corporation maintains a demand operating credit facility in the form of an overdraft lending account with an interest rate of prime plus 0.90% (December 31, 2022 – prime plus 0.90%) for an effective rate of 8.10% (December 31, 2022 – 7.35%). At September 30, 2023, the facility had an unmarginated authorized limit of \$1,200,000 that was fully available, and \$Nil was drawn (December 31, 2022 - \$1,200,000 available and \$Nil drawn). The credit facility does not contain any financial covenants and is secured by a general security agreement over trade accounts receivable and inventory. The Corporation also has a Master Equipment Lease Line in the amount of \$3,000,000, to be used when necessary to finance equipment additions. At September 30, 2023 an amount of \$650,000 was drawn with a fixed interest rate of 7.5% for 60 months (September 30, 2022 - \$Nil was drawn). The Corporation is in compliance with all obligations pertaining to its credit facilities.

Long-term debt

The Corporation has a long-term lending agreement in the form of a fixed rate mortgage maturing in 2043; bearing a fixed interest rate of 5.25%; 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, which was valued at \$4,400,000 by a professional appraiser in July 2022. The facility is backed by 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 mortgage 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.

8. Foreign Currency Exposure

For the three and nine month periods ended September 30, 2023, the Corporation had an exposure to foreign currency risk as the proportion of sales denominated in US dollars ("USD") was approximately 30%. This exposure is currently unhedged, and management carefully monitors this exposure on an ongoing basis.

9. Related Party Transactions

The four-person 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, 2023, the Corporation expensed \$165,000 (2022 - \$137,000) and \$947,000 (2022 - \$962,000), respectively, related to those compensation arrangements.

10. Governance

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

11. 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 (loss)

(in thousands of dollars)

For the periods ended September 30	Three months		Nine months	
	2023	2022	2023	2022
EBITDA	(33)	841	1,080	2,794
Less: Depreciation and amortization	70	79	201	189
Less: Interest expense	26	27	81	88
Less: Income tax	(35)	199	222	676
Net earnings (loss)	(94)	536	576	1,841

12. Outlook

In addition to other sections of this MD&A, this outlook contains forward-looking information and actual outcomes may differ materially from those expressed or implied herein. 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 and control infrastructures in North America which are essential in supporting the video streaming, online gaming, and remote work environment that has been established. The Corporation's enclosures house the electronics and control systems necessary to support these services. 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 well into the future.

2023 has been a challenging year as revenues in the first half declined due to a changing market attributed to the pace of installations and a resultant customer inventory correction. As the third quarter unfolded indications began to emerge that the threat of a recession and rising interest rates were having a significant impact on the capital spending patterns of the major communications companies. Another factor in Canada for the slowing of installations relates to the major internet providers reducing their capital spending in the wake of the CRTC decision to force them to open their networks to smaller competitors at prescribed rates. This shift in market sentiment and capital spending is expected to reduce revenues through to the spring of 2024 when somewhat normal seasonal purchasing patterns are anticipated to recover. The Corporation's working capital position is solid, and the operations have been right sized for the current downturn in activity.

The major providers of internet bandwidth and other communication technologies are continuing to make significant infrastructure investments that are being called for in both Canada and the USA, albeit at a slower pace and in some circumstances at a lower level of spending. The governments in both countries are continuing to prioritize the need and demand for broadband access in their more remote regions. Notwithstanding these commitments, management is carefully monitoring the order pace, recession rhetoric, and inflationary pressures to ensure appropriate actions continue to be taken to preserve working capital and respond to the impact of these factors.