



INVENTRONICS LIMITED

2019 SECOND QUARTER

MANAGEMENT'S DISCUSSION & ANALYSIS

For the period ended June 30, 2019

2019 Second Quarter Financial Report – June 30, 2019

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated August 27, 2019 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 month period ended June 30, 2019. 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, 2018, 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 and power 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 communication 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 ranging 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 ("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	2018	2017	2016
Revenue	4,616	4,480	3,830
EBITDA ¹	257	321	213
Net income (loss)	16	81	(283)
Total assets	3,636	3,228	3,268
Long-term debt, excluding current portion	2,266	2,189	2,234
Basic and diluted earnings (loss) per share	0.4¢	1.8¢	(6.4)¢

Note 1 See "Non-IFRS Measures" below.

3. Summary of Financial Results

The Corporation's revenues tend to follow Canadian economic conditions. As many of the Corporation's products are incorporated in outdoor installations, 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. Revenue for the second quarter of 2019 showed a significant improvement over the same quarter of 2018. This is a return to more normal levels after an inexplicably slow first half of 2018.

Selected Quarterly Financial Information

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

	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	1,678	1,132	1,708	1,282	874	752	1,135	1,224
Cost of sales as a percentage of Revenue	76%	85%	80%	79%	88%	87%	86%	80%
EBITDA ¹	197	80	249	216	14	(34)	12	127
Net income (loss)	134	20	189	(34)	(47)	(93)	(45)	68
Basic and diluted earnings (loss) per share	3.0¢	0.5¢	4.3¢	(0.8)¢	(1.1)¢	(2.1)¢	(1.0)¢	1.5¢

Note 1 See "Non-IFRS Measures" below.

4. Results of Operations

Revenue

Revenue for the second quarter of 2019 of \$1,678,000 was \$804,000, or 92%, higher than the \$874,000 reported for the comparative quarter of 2018. Revenue for the first six months of 2019 totalling \$2,810,000 was \$1,184,000, or 73%, higher than the \$1,626,000 reported for the same period of 2018. These improvements are reflective of the unusually slow first half of the previous year and a general increase in demand from virtually all of the Corporation's customers.

Cost of Sales

Cost of sales as a percentage of revenue for the three months ended June 30, 2019 of 76% was lower than the 88% reported for the comparative period of 2018 due to the higher volumes over which fixed costs are spread. Material and labour margins and indirect production costs for the second quarter of 2019 improved sufficiently to result in higher overall gross margins for the quarter compared to the same period last year. Depreciation and amortization expense included in cost of sales for the three months ended June 30, 2019 of \$22,000 was consistent with the \$21,000 reported for the comparative period of 2018, reflecting the Corporation's continuing constraints on capital spending.

Selling and Administration Expense

Selling and administrative spending for the three and six month periods ended June 30, 2019 of \$230,000 and \$341,000, respectively, has increased from the \$113,000 and \$264,000 reported for the comparative periods of 2018. These increases are primarily attributable to increases in certain public company costs combined with the variable component of the Corporation's management compensation plan that adjusts with the Corporation's financial performance.

Interest

Interest expense for the three and six month periods ended June 30, 2019 of \$41,000 and \$80,000, respectively, were higher than the \$40,000 and \$77,000 reported for the comparative periods of the prior year. This reflects the increase in the interest rate on the long-term debt principal balance in 2019 compared to 2018.

Net Income or Loss

For the second quarter of 2019, the Corporation reported net income of \$134,000, or 3.0 cents per share, compared to a net loss of \$47,000, or 1.1 cents per share for the comparative quarter of 2018. For the first six

months of 2019, the Corporation reported net income of \$154,000, or 3.5 cents per share, compared to a net loss of \$140,000, or 3.2 cents per share for the comparative period of 2018.

5. Income Taxes

At December 31, 2018, the Corporation had Canadian non-capital losses of \$2,279,000 (2017 - \$1,479,000). There were no Canadian non-capital losses that expired in 2018 (2017 - \$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
Total	\$ 2,279

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 June 30, 2019, the Corporation's operations generated cash flow of \$193,000 compared to \$8,000 for the comparative quarter of the prior year. For the six months ended June 30, 2019, the Corporation's operations generated cash flow of \$268,000 compared to consuming cash of \$30,000 for the comparative period of the prior year.

Cash Flow from Operations

(in thousands of dollars)

For the periods ended June 30	Three months		Six months	
	2019	2018	2019	2018
Net income (loss)	134	(47)	154	(140)
Add: Interest on long-term debt ¹	37	33	70	67
Add: Depreciation	22	21	44	42
Add: Other items not involving cash	-	1	-	1
Cash flow from Operations	193	8	268	(30)

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

Working Capital Position

As at June 30, 2019, the Corporation reported a working capital balance of \$633,000, which represented an increase of \$127,000 compared to the first quarter of 2019. At June 30, 2019, the Corporation's working capital ratio was 1.42:1. It is management's belief that the Corporation's working capital position at June 30, 2019 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	2019		2018				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Current assets	2,133	1,410	1,460	1,538	1,134	895	1,003	1,193
Current liabilities	1,500	904	968	1,226	902	649	654	767
Working capital	633	506	492	312	232	246	349	426
Working capital ratio	1.42:1	1.56:1	1.51:1	1.25:1	1.26:1	1.38:1	1.53:1	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 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>				
As at	June 30, 2019		December 31, 2018	
	Shares	Amount	Shares	Amount
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 six and twelve month periods ended June 30, 2019 and December 31, 2018, respectively, and there was no change to the Corporation's share capital since June 30, 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 June 30, 2019, there were 300,000 options granted, outstanding and exercisable with an exercise price of \$0.10 (December 31, 2018 - 400,000). There were 100,000 stock options cancelled in the three months ended June 30, 2019 and there was no activity related to the Corporation's stock option plan since June 30, 2019.

8. Borrowing Arrangements and Covenants

Operating credit

The Corporation maintains a demand operating credit facility with its banker in the form of an overdraft lending account, margined on the Corporation's accounts receivable and inventory balances, with an authorized limit of \$850,000 and an interest rate of prime plus 2.50% (see "Liquidity and Capital Resources - Working Capital Liquidity" above), secured by a general security agreement constituting a first ranking security interest on all personal property of the Corporation and *Section 427 of the Bank Act (Canada)* security over inventory. 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 ("DTNW") 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 at rates fixed from time to time; repayable monthly in blended principal and interest installments; 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 7.15% and blended monthly payments of \$16,126. Prior to April 10, 2019, the interest rate was 6.0% with a monthly blended principal and interest installment of \$15,409. 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.

9. Foreign Currency Exposure

For the three and six month periods ended June 30, 2019, 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

The members of Inventronics' senior management team, as a group, control the corporation that holds approximately 69% of the outstanding common shares of the Corporation. The three 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 salary to its senior management team for their employment services and incurs related employee benefit costs. For the three and six months ended June 30, 2019, the Corporation expensed \$152,000 (2018 - \$94,000) and \$250,000 (2018 - \$191,000), respectively, related to salary and employee benefits for its senior management team, including statutorily mandated contributions to the government programs.

11. Governance

The Corporation's Board is comprised of the three members of the Corporation's senior management team and three independent members. The Corporation's President and the three independent members sit on 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 Income (Loss)

(in thousands of dollars)

<i>For the periods ended June 30</i>	Three months		Six months	
	2019	2018	2019	2018
EBITDA	197	14	278	(21)
Less: Depreciation and amortization	22	21	44	42
Less: Interest expense	41	40	80	77
Net income (loss)	134	(47)	154	(140)

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.

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. The second half of the year is expected to continue to follow this pattern but may not be as strong as the second half of last year. Profit for the second half should exceed last year because of the unusual one time restructuring charge last year which is not expected to reoccur.