INVENTRONICS LIMITED

2024 FIRST QUARTER FINANCIAL REPORT

MANAGEMENT'S DISCUSSION & ANALYSIS

For the period ended March 31, 2024

2024 First Quarter Financial Report – March 31, 2024
Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated May 9, 2024 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 March 31, 2024. 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, 2023, which are available on the SEDAR+ website at www.sedarplus.ca 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, cable, power and energy 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 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. The Corporation's products have been primarily placed in service throughout North America. Most 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 intended 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***	**2023**	**2022**	**2021**
Revenue	8,859	14,245	9,985
EBITDA[1]	934	3,327	1,665
Net earnings	369	2,093	1,890
Total assets	6,095	6,027	5,228
Long-term debt, excluding current portion	2,437	1,989	2,049
Basic earnings per share	7.6¢	43.4¢	41.0¢

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. The variability of weather conditions in the first and fourth quarters often limits the volume of projects that can be completed during these periods. Growing revenue levels in the United States of America (USA) are helping to reduce the impact of these quarterly fluctuations.

Selected Quarterly Financial Information *(in thousands of dollars, except percentage and per share amounts)*	**2024**	**2023**				**2022**		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Revenue	1,432	959	1,463	3,103	3,334	2,739	3,450	4,269
Cost of sales as a percentage of revenue	87%	109%	97%	73%	73%	77%	72%	67%
EBITDA[1]	85	(146)	(33)	563	550	533	841	1,204
Net earnings (loss)	8	(207)	(94)	346	325	252	536	803
Basic earnings per share	0.2¢	(4.2)¢	(1.9)¢	7.1¢	6.6¢	5.2¢	11.1¢	16.7¢

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

4. *Results of Operations*

Revenue

Revenue for the first quarter of 2024 of $1,432,000 was $1,902,000, or 57%, lower than the $3,334,000 reported for the comparative quarter of 2023. This reduction in revenue was principally a continuation of the previously reported customer inventory rationalization and slower pace of broadband service installations across Canada and the USA. The first quarter revenue reflects an improvement over the 2023 fourth quarter low in revenue. The project volumes appear to be strengthening as the various broadband service providers commence their buildout programs for 2024.

Cost of Sales

Cost of sales as a percentage of revenue of 87% for the three months ended March 31, 2024, was higher than the 73% reported for the comparative period of 2023. Lower activity levels and shorter production runs result in reduced efficiency and higher relative production costs. Management is carefully monitoring operating costs to ensure acceptable margins are achieved at these lower revenue levels.

Selling and Administration Expense

Selling and administrative expenses for the first quarter were reduced to 10% of revenue from 13% realized in the first quarter of 2023. All costs are being scrutinized and reduced, wherever possible.

Interest

Net interest expense for the first quarter of 2024 remained consistent at $26,000 compared to $27,000 for the same period in 2023.

Net Earnings

Net earnings for the first quarter of 2024 of $8,000, or 0.2 cents per share, was significantly lower than the $325,000, or 6.6 cents per share, earned in the same period last year. The reduction in revenues and the lower margins were the primary contributors to the decline in profitability.

5. *Liquidity and Capital Resources*

Cash Flow from Operations

For the three months ended March 31, 2024, the Corporation's operations generated cash flow of $94,000 compared to $427,000 for the same quarter of the prior year. Lower revenues and decreased margins were the primary drivers for this cash flow reduction.

Cash Flow from Operations
(in thousands of dollars)

For the periods ended March 31	2024	2023
Net earnings	8	325
Add: Interest on long-term debt[1]	38	27
Add: Depreciation	48	75
Cash flow from Operations	94	427

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

Working Capital Position

As at March 31, 2024, the Corporation reported a working capital balance of $2,205,000, which represented a $76,000 reduction from the first quarter of 2023 and a working capital ratio of 3.56:1. It is management's belief that the Corporation's working capital position at March 31, 2024 is more than sufficient to support the current operating requirements of the business.

Working Capital Position
(in thousands of dollars, except ratio calculation)

	2024	2023				2022		
At the end of	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Current assets	3,067	2,860	2,921	2,983	3,758	3,536	5,085	4,513
Current liabilities	862	607	768	1,176	1,477	1,142	2,885	1,229
Working capital	2,205	2,253	2,153	1,807	2,281	2,394	2,200	3,284
Working capital ratio	3.56 :1	4.71 :1	3.80 :1	2.54 :1	2.54 :1	3.10 :1	1.76 :1	3.67 :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. At March 31, 2024, the Corporation's unmargined 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	March 31, 2023		December 31, 2023	
	Shares	Amount	Shares	Amount
Outstanding, beginning of the period	4,871,145	$ 1,337	4,838,145	$ 1,266
Options exercised	-	-	33,000	71
Authorized, issued and outstanding common shares	4,871,145	$ 1,337	4,871,145	$ 1,337

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 March 31, 2024, there were 50,000 options outstanding with an exercise price of $1.65 per share (December 31, 2023 – 384,000). In the first quarter of 2024, there were 334,000 options rescinded. There has been no activity related to the Corporation's stock option plan since March 31, 2024.

7. Borrowing Arrangements

Credit facilities

The Corporation has a demand operating credit facility in the form of an overdraft lending account which provides an authorized limit of $1,200,000 with an interest rate of prime plus 0.90% (December 31, 2023 – prime plus 0.90%) for an effective rate of 8.10% (December 31, 2023 – 8.10%). At March 31, 2024, an amount of $1,200,000 under this facility was available, of which $Nil was drawn (March 31, 2023 - $1,200,000 available and $Nil was drawn).The credit facility does not contain any financial covenants and is secured by a general security agreement over accounts receivable and inventory balances. The Corporation also has an equipment financing facility in the amount of $3,000,000, to be used when necessary to finance equipment additions. In 2023 an amount of $650,000 was drawn with a fixed interest rate of 7.5% for 60 months (March 31, 2023 - $Nil was drawn).

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 5.25%; 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 secured 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 also has an equipment financing facility in the amount of $3,000,000, to be used when necessary to finance equipment additions. In 2023, an amount of $650,000 was drawn from the equipment financing facility with a fixed interest rate of 7.5% for 60 months. Although containing general performance conditions, these agreements do not contain any financial covenants that must be periodically tested.

The Corporation is in compliance with all obligations pertaining to its credit and lending facilities.

8. Foreign Currency Exposure

For the three months ended March 31, 2024, the Corporation had an exposure to foreign currency risk as the proportion of sales denominated in US dollars (“USD”) was approximately 31%. 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 quarter ended March 31, 2024, the Corporation expensed $122,000 (2023 - $369,000) 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
(in thousands of dollars)

For the periods ended March 31	**2024**	**2023**
EBITDA	85	550
Less: Depreciation	(48)	(75)
Less: Interest expense	(26)	(27)
Less: Income tax	(3)	(123)
Net earnings	8	325

12. 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 environments. 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. The key risks in this uncertain environment are changes in government support programs and 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 remains solid, which is expected to cushion any potential future variability in demand.

The first quarter of 2024 generated revenues sufficient to confirm that the Q4 2023 revenues were the low point in the recent business cycle and that revenue for 2024 should continue to strengthen. Indications received from many customers support this strengthening and the increasing backlog is further confirmation of this perspective. The pace of installations has levelled off to a more sustainable rate aligned with the availability of installers. The demand for internet bandwidth and changing communication technologies is continuing to drive significant infrastructure investments in both Canada and the USA. The moderating inflationary pressures and anticipated lower interest costs are expected to strengthen the medium to long-term demand for enclosures.