Management's Discussion & Analysis – Q1 2003

OVERVIEW

Inventronics Limited designs and manufactures custom metal enclosures and related products for the communications, electronics and other industries in North America. The enclosures are sophisticated products that address a variety of customer concerns including security, protection from the outside environment, ventilation and thermal management, noise abatement, aesthetics and styling, electromagnetic compatibility and seismic compatibility. In many circumstances, Inventronics also integrates a customer's communications, electronics or other components into the enclosures and delivers them directly to the end user, thereby providing a complete outsourcing service.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2003 AND 2002

Sales

Inventronics' sales decreased 48% to $3.3 million for the three months ended March 31, 2003 compared to $6.3 million in the same period last year. The Corporation normally experiences a seasonal decline in revenues in the first quarter. However, this year the decline was more pronounced as a result of constrained capital spending in the communications and other industries served by Inventronics, due to general economic and geo-political uncertainties. In addition, the Corporation's principal customer has decided to direct-purchase the components installed by Inventronics in its enclosures, which results in offsetting reductions to sales and cost of sales with no net income effect. This contract alteration accounts for more than $1.3 million of the reduction in first quarter sales.

The Corporation's efforts to diversify into new markets with new customers are continuing to generate opportunities, although product launch delays due to the economic and geo-political uncertainties are moving these sales into future quarters. The predictable seasonal uplift in sales, which begins in the second quarter of each year, is also expected to increase sales to profitable levels over the balance of 2003.

Costs and Expenses

The manufacturing consolidation efforts that were completed in the fourth quarter of 2002, which included the permanent closure of a leased production facility in Sherwood Park, Alberta, enabled Inventronics to improve its first-quarter operating gross margin to 16.4% compared to the 7.0% achieved in the same period last year. This significant margin improvement is principally related to fixed-cost reductions and improved manufacturing efficiencies.

Ongoing plant fixed costs incurred in the first quarter of 2003 were reduced $534,000 or 24% from those recorded in the same period last year. Manufacturing efficiency improvements of $233,000, related to labour management and scrap reductions, were achieved by consolidating all production in the Corporation's more efficient, wholly owned facility in Brandon, Manitoba. These operating cost improvements are permanent, and will enable gross margins to continue to strengthen as sales volumes increase from the historic lows experienced in the first quarter of 2003.

Included in the cost of sales expenses for the first quarter was an additional one-time charge of $130,000 to terminate the Corporation's lease obligations at the now-closed production facility in Sherwood Park. The termination of this lease eliminated the cost and risk of sub-letting this property until the end of the original lease term of 2011.

Selling and administrative expenses in the quarter were also reduced approximately 11% compared to the same period last year. Investments in sales and marketing activities to broaden the Corporation's customer and market base are continuing, with expenditure reductions concentrated in the administrative category.

Interest costs increased to $201,000 in the first quarter from $75,000 in the same period of 2002, due to the cost of servicing the subordinated promissory notes issued in the fourth quarter of 2002. This increased debt servicing cost will continue to be a significant variance from prior year results throughout 2003.

Net Loss

The net loss of $491,000 for the three months ended March 31, 2003 was the result of lower sales, lease termination costs and higher debt service costs. The permanent nature of the gross margin improvements demonstrated in this quarter position Inventronics well to achieve profitability over the balance of 2003 as sales volumes increase through the busier months of the year.

Liquidity and Capital Resources

Inventronics' working capital position decreased to $971,000 at March 31, 2003 from $1,352,000 at December 31, 2002. This level of working capital is adequate to support current operating requirements. The Corporation has a $1.0-million committed operating facility available to be drawn, and a $2.3-million term facility available should it be required to support the contingent liability related to a former subsidiary (see Note 3). The Corporation may require additional debt and/or equity financing in the longer term to support potential growth opportunities.

Balance Sheets

$ 000's (Unaudited)	***As at March 31,* 2003**	*As at December 31,* 2002
Assets		
Current		
Cash and cash equivalents	**$ 21**	$ 1,060
Accounts receivable	**1,986**	1,918
Inventories	**1,323**	1,470
Prepaid expenses	**53**	97
	3,383	4,545
Capital assets	**7,979**	8,168
Other assets *[note 3]*	**947**	980
	$ 12,309	$ 13,693
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued charges *[note 3]*	**$ 1,879**	$ 2,669
Current portion of capital lease obligations	**533**	524
	2,412	3,193
Capital lease obligations	**1,404**	1,542
Subordinated promissory notes	**3,538**	3,511
Other deferred liabilities	**58**	59
	7,412	8,305
Contingent liability *[note 3]*		
Shareholders' equity		
Share capital	**14,365**	14,365
Deficit	**(9,468)**	(8,977)
	4,897	5,388
	$ 12,309	$ 13,693

See accompanying notes

Statements of Net Loss and Deficit

Three months ended March 31 *$ 000's (Unaudited)*	**2003**	2002
Sales	**$ 3,281**	$ 6,329
Costs and expenses		
Cost of sales	**2,872**	5,887
Selling and administration	**452**	507
Depreciation and amortization	**247**	264
	3,571	6,658
Operating loss from continuing operations	**(290)**	(329)
Interest expense	**201**	75
Income tax recovery	**–**	(142)
Loss from continuing operations	**(491)**	(262)
Loss from discontinued operations *[note 3]*	**–**	(487)
Net loss	**(491)**	(748)
Deficit, beginning of the period	**(8,977)**	(1,601)
Deficit, end of the period	**$ (9,468)**	$ (2,349)
Basic and diluted loss per share *[note 2]*:		
From continuing operations	**(7) ¢**	(4) ¢
From discontinued operations	**–**	(7) ¢
Basic and diluted loss per share	**(7) ¢**	(11) ¢

See accompanying notes

Statements of Cash Flows

Three months ended March 31 *$ 000's (Unaudited)*		**2003**		2002
Operating activities				
Net loss from continuing operations	**$**	**(491)**	$	(262)
Items not involving cash		**286**		62
		(205)		(200)
Changes in non-cash working capital balances		**(397)**		(390)
		(602)		(590)
Financing activities				
Increase (decrease) in bank operating lines		**–**		280
Repayment of capital lease obligations		**(129)**		(192)
		(129)		88
Investing activities				
Acquisition of capital assets		**(58)**		(57)
Funding of other asset *[note 3]*		**(250)**		–
Other		**–**		1
		(308)		(56)
Discontinued operations *[note 3]*		**–**		–
Increase (decrease) in cash and cash equivalents		**(1,039)**		(558)
Cash and cash equivalents, beginning of the period		**1,060**		558
Cash and cash equivalents, end of the period	**$**	**21**	$	–
Supplemental disclosure of cash paid for:				
Interest	**$**	**161**	$	75
Income taxes	**$**	**–**	$	–

See accompanying notes

$ 000's (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements have been prepared using policies and methods applied in the preparation of the Corporation's annual audited financial statements for the year ended December 31, 2002. The unaudited interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the Corporation's 2002 annual audited financial statements.

2. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding, which totalled 6,875,726 at March 31, 2003 (March 31, 2002 - 6,875,726). For the three months ended March 31, 2003 and 2002, diluted loss per share does not differ from the basic loss per share since the conversion of outstanding stock options and warrants would have an anti-dilutive effect.

3. DISCONTINUED OPERATION AND CONTINUING LIABILITY

On September 17, 2002, the Corporation completed the sale of all classes of outstanding shares of its wholly owned subsidiary, Eurocraft Enclosures Limited, for no net proceeds.

At March 31, 2003, the Corporation continued to have a letter of credit in the amount of £976 (CA$2,264) outstanding in support of the long-term debt obligation of Eurocraft Enclosures Limited. Pursuant to the sale agreement, the Corporation agreed to make monthly interest and principal payments on the Eurocraft term debt obligations until October 31, 2003. At the end of this period, Eurocraft will resume making these payments and will repay the amounts paid by the Corporation on behalf of Eurocraft, interest free, commencing January 2006. Principal on the Eurocraft term loan is repayable over 36 months commencing January 2003 at the rate of £30 (CA$70) per month. As each monthly principal payment is made, the Corporation's letter of credit obligation will automatically reduce by an equivalent amount. As at March 31, 2003, $483 was included in accrued liabilities to recognize the remaining balance of the Corporation's principal repayment obligations assumed under this agreement. In addition, the related long-term receivable discounted to a present value of $690, including interest paid to March 31, 2003, has been reflected within Other Assets. The Corporation has entered into monthly forward exchange contracts for the principal portion of these payment obligations to October 31, 2003.

4. COMPARATIVE FIGURES

Certain 2002 comparative figures have been reclassified to conform to the current period's presentation.