



Inventronics Limited

www.inventronics.com

*Designing and Manufacturing
Custom Metal Enclosures*

3rd Quarter Report
for the period ending September 30, 2003

Management's Discussion & Analysis – Q3 2003

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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 requirements including security, protection from the outside environment, ventilation and thermal management, noise abatement, aesthetics and styling, electromagnetic and seismic compatibility. In many circumstances, Inventronics integrates customer communications, electronics or other components into the enclosures and delivers them directly to the end user, thereby providing a complete outsourcing service. The majority of the Corporation's revenues are generated through the sale of finished enclosures to one principal customer, which accounted for approximately 80% of the Corporation's year-to-date 2003 revenue.

COMPARISON OF THE NINE MONTH PERIODS AND QUARTERS ENDED SEPTEMBER 30, 2003 AND 2002

Sales

Sales for the third quarter of 2003 were \$3,457,000, which was virtually unchanged from the second-quarter sales of \$3,531,000. Monthly sales have remained flat for nearly 12 months, reflecting stabilized infrastructure spending in the industries served by Inventronics. Evidence of strengthening sales in the latter part of the third quarter is expected to carry over into the fourth quarter, as some of Inventronics' customers increase purchases to service gradually increasing infrastructure spending by end users.

Comparison of the third quarter sales for 2003 versus 2002 reveals a decline of \$3,007,000, of which almost \$1.7 million relates to the Corporation's principal customer now direct-purchasing the components installed by Inventronics in its enclosures. This change in purchasing practice results in offsetting reductions to Inventronics' sales and cost of sales, with no net income effect. It also accounts for more than \$5.1 million of the reduction in the nine-month ended sales of \$10,269,000 to September 30, 2003 compared to \$21,045,000 for the same period last year. The balance of the change is a direct reflection of the reduced activity in the markets served by Inventronics across North America.



Costs and Expenses

Actions to improve operating cash flows at the current sales levels prompted further cost reductions in the third quarter of 2003. Approximately \$234,000 of one-time costs were incurred for employee severances and other related costs. These reductions will significantly improve monthly cash flows and add to the margin improvements already realized on a year-over-year basis. Plant fixed costs incurred to date in 2003 are approximately \$1.7 million less than those incurred for the same period last year.

Selling and administrative expenses in the third quarter were reduced \$226,000 or approximately 39% from the same period last year. These expense reductions were necessary to further align this portion of the Corporation's fixed costs to current sales levels. Despite reducing its selling costs, the Corporation's activities to broaden its customer and market base are continuing.

Interest costs increased to \$211,000 in the third quarter from \$80,000 in the same period of 2002, due to the cost of servicing the subordinated promissory notes issued in the fourth quarter of 2002.

Net Loss

Almost half of Inventronics' net loss of \$475,000 for the three months ended September 30, 2003 was due to the one-time costs required to further reduce the Corporation's fixed-cost base. The weakening of the US dollar has also impacted earnings through \$254,000 of currency exchange losses thus far in 2003.

Liquidity and Capital Resources

Inventronics' working capital position was \$528,000 at September 30, 2003 compared to \$756,000 at June 30, 2003. This level of working capital is adequate to support short-term operating requirements. Working capital will strengthen upon the termination of the cash funding of other assets (see Note 4). In addition, monthly cash flows will increase in response to the cost reductions completed in the third quarter. The cost to affect these reductions was financed through additional long-term borrowings of \$247,000 from the Corporation's subordinated debt lender.

In the quarter ended September 30, 2003, the Corporation arranged for the renewal of its \$1.0-million committed operating facility and also its \$2.0-million term facility, which is available should it be required to support the contingent liability related to a former subsidiary (see Note 3). To date in 2003, this contingent liability has been reduced by \$924,000 to \$1,787,000. Financial covenants related to these facilities have been established in line with forecast requirements for the coming 12-month period.

Balance Sheets

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<i>\$ 000's (Unaudited)</i>	As at September 30, 2003	As at December 31, 2002
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 1,060
Accounts receivable	1,885	1,918
Inventories	1,239	1,470
Prepaid expenses	81	97
	3,205	4,545
Capital assets	7,653	8,168
Other assets <i>[note 4]</i>	1,006	980
	\$ 11,864	\$ 13,693
Liabilities and Shareholders' Equity		
Current		
Bank operating line <i>[note 2]</i>	\$ 420	\$ -
Accounts payable and accrued charges <i>[note 4]</i>	1,695	2,669
Current portion of capital lease obligations	562	524
	2,677	3,193
Capital lease obligations	1,078	1,542
Subordinated promissory notes <i>[note 3]</i>	3,842	3,511
Other deferred liabilities	56	59
	7,653	8,305
Contingent liability <i>[note 4]</i>		
Shareholders' equity		
Share capital	14,420	14,365
Deficit	(10,209)	(8,977)
	4,211	5,388
	\$ 11,864	\$ 13,693

See accompanying notes

Statements of Net Loss and Deficit

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\$ 000's (Unaudited)	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2003	2002	2003	2002
Sales	\$ 3,457	\$ 6,464	\$ 10,269	\$ 21,045
Costs and Expenses				
Cost of sales	2,920	5,786	8,713	19,421
Selling and administration	349	575	1,256	1,621
Depreciation and amortization	211	267	702	796
Restructuring charges <i>[note 5]</i>	234	2,163	234	2,963
	3,714	8,791	10,905	24,801
Operating loss from continuing operations	(257)	(2,327)	(636)	(3,756)
Interest expense	211	80	587	222
Income taxes	7	12	9	409
Loss from continuing operations	(475)	(2,419)	(1,232)	(4,387)
Loss from discontinued operations <i>[note 4]</i>	-	(89)	-	(2,313)
Net loss	(475)	(2,508)	(1,232)	(6,700)
Deficit, beginning of the period	(9,734)	(5,793)	(8,977)	(1,601)
Deficit, end of the period	\$ (10,209)	\$ (8,301)	\$ (10,209)	\$ (8,301)
Basic and diluted loss per share <i>[note 6]:</i>				
From continuing operations	(7) ¢	(35) ¢	(18) ¢	(64) ¢
From discontinued operations	-	(1) ¢	-	(33) ¢
Basic and diluted loss per share	(7) ¢	(36) ¢	(18) ¢	(97) ¢

See accompanying notes

Statements of Cash Flows

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\$ 000's (Unaudited)	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2003	2002	2003	2002
Operating Activities				
Net loss from continuing operations	\$ (475)	\$ (2,419)	\$ (1,232)	\$ (4,387)
Items not involving cash	336	815	907	2,509
	(139)	(1,604)	(325)	(1,878)
Changes in non-cash working capital balances	733	2,069	156	1,801
	594	465	(169)	(77)
Financing Activities				
Repayment of bank term loan	-	-	-	(120)
Repayment of capital lease obligations	(134)	(186)	(426)	(595)
	(134)	(186)	(426)	(715)
Investing Activities				
Acquisition of capital assets	(91)	(84)	(193)	(172)
Proceeds on disposal of assets	3	18	3	18
Funding of other asset [note 4]	(228)	(24)	(695)	(24)
	(316)	(90)	(885)	(178)
Discontinued Operations [note 4]				
	-	(89)	-	(179)
Increase (decrease) in cash and cash equivalents	144	100	(1,480)	(1,149)
Cash and cash equivalents, beginning of the period	(564)	(691)	1,060	558
Cash and cash equivalents, end of the period	\$ (420)	\$ (591)	\$ (420)	\$ (591)
Breakdown of cash and cash equivalents:				
Bank operating line	\$ (420)	\$ (591)	\$ (420)	\$ (591)
Supplemental disclosure of cash paid for:				
Interest	\$ 86	\$ 80	\$ 415	\$ 222
Income taxes	\$ 7	\$ 11	\$ 23	\$ 70

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. LENDING FACILITIES

At September 30, 2003, the Corporation received waivers of compliance from its lenders related to the financial covenants contained in the credit facilities. In the third quarter, the Corporation arranged for the renewal of its credit facilities with revised financial covenants for the ensuing 12 months.

3. SUBORDINATED PROMISSORY NOTES

In the quarter ended September 30, 2003, the Corporation entered into arrangements to secure an additional \$247 in long-term debt from its subordinated debt lender. As compensation for this additional long-term financing, the Corporation arranged for the repricing of the 1,715,000 warrants, currently outstanding to its subordinated debt lender, to 22¢ from 40¢.

4. 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 September 30, 2003, the Corporation continued to have a letter of credit in the amount of £796 (CA\$1,787) 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 this term loan is repayable over 36 months commencing January 2003 at the rate of £30 (CA\$67) per month. As each monthly principal payment is made, the Corporation's letter of credit obligation automatically reduces by an equivalent amount. As at September 30, 2003, \$67 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 \$721, including interest paid to September 30, 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.

5. RESTRUCTURING CHARGES

At September 30, 2003, a provision has been recognized for the severance and other one-time costs related to restructuring the operations to improve cash flows. In 2002, provisions totalling \$3.0 million were recognized principally for the shutdown of the Corporation's former Sherwood Park manufacturing facility, which was permanently closed in October of 2002.

6. 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 September 30, 2003 and 2002. For the nine months ended September 30, 2003 and 2002, diluted loss per share is the same as the basic loss per share since the conversion of outstanding stock options and warrants would have an anti-dilutive effect. The potentially dilutive shares excluded from the diluted loss per share calculation totalled 2,175,768 at September 30, 2003 (September 30, 2002 – 1,192,434).

7. STOCK-BASED COMPENSATION

As at September 30, 2003, the fair value of stock options granted to date in 2003 would result in a compensation cost of approximately \$8 as determined using an option-pricing model. The effect on net earnings of this compensation cost is immaterial and has no net effect on the calculation of earnings (loss) per share.

In addition, the value of consideration for the repricing of the 1,715,000 warrants granted to the subordinated promissory note holders in relation to the financing arrangements discussed in Note 3 has been reflected within share capital. The fair value of this consideration amounted to \$55 as determined using a modified Black-Scholes option-pricing model adjusted for dilution, trading liquidity and transaction costs.

8. COMPARATIVE FIGURES

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