

# Omni-Lite Industries Canada Inc.

## For the period ended June 30, 2015

### MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (“MD&A”) of financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and the related notes of Omni-Lite Industries Canada Inc. for the period ended June 30, 2015. Omni-Lite Industries Canada Inc. (“Omni-Lite” or the “Company”) reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB. The Company’s functional currency is in United States (“US”) dollars and all amounts in this MD&A are expressed in US dollars. This discussion has been completed as of July 17, 2015.

#### Company Overview

Omni-Lite Industries Canada Inc. is a world recognized research and development company specializing in the manufacture of precision components forged from advanced composite and other alloyed materials. These components are produced utilizing computer-controlled cold forging systems that are networked to provide an optimal environment for engineering enhancements, leading to maximum production efficiencies. These capabilities provide financial benefits such as high industry gross and net margins, and significant cash flow and EBITDA<sup>(1)</sup> ratios, which allow the Company to execute an ambitious growth strategy.

By combining its progressive cold forging techniques with a team of key design and material engineers, production technicians, marketing and administrative support personnel, Omni-Lite has been able to deliver components with the exacting criteria required by customers in a broad group of industries. The Company’s mandate is to further leverage this unique mix of skills and competencies to achieve additional growth.

Omni-Lite is managed as a single business by the chief operating decision-makers. The Company operates four business segments defined as the Military, Aerospace, Specialty Automotive, and Sports and Recreation divisions. Through its wholly owned subsidiaries which include: Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc., and Omni-Lite Properties Inc., the Company designs, engineers, manufactures, and markets specialized components to a broad spectrum of Fortune 500 customers. Its components are utilized in the products of Boeing, Airbus, Bombardier, the U.S. Military, Chrysler, Ford, Nike, and adidas. The requirements and stature of these customers necessitates that the Company operate at a very high level of engineering and production efficiency.

<sup>(1)</sup> “EBITDA” is a non-IFRS term which represents earnings or losses before net interest expense, income taxes, depreciation and amortization, and non-controlling interests. The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Company's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with IFRS.

The distribution of revenue between the four business divisions for the period ended June 30, 2015 is as follows:

| <u>Division</u>      | <u>Aerospace</u> | <u>Military</u> | <u>Specialty<br/>Automotive</u> | <u>Sport &amp; Recreation</u> |
|----------------------|------------------|-----------------|---------------------------------|-------------------------------|
| <b>June 30, 2015</b> | 33%              | 30%             | 22%                             | 15%                           |

To ensure future growth, Omni-Lite is committed to funding the research and development of new products and materials and to apply for patents to protect the intellectual property that pertains to its business. To date, the Company has been granted seven U.S. Patents covering innovations in materials, processes, and design.

To gain access to new nanostructured materials and technical services being pioneered in this innovative industry, Omni-Lite invested in California Nanotechnologies Corp., a publicly listed company trading as “CNO” on the TSX Venture Exchange. Approximately 18 percent of outstanding shares of CNO are held by Omni-Lite.

Omni-Lite’s overall strategy is to continue striving to be the best in the progressive cold forging business. This strategy, entitled the Vision 2020 Plan is summarized below:

#### Vision 2020 Plan

- Create superior shareholder value through development of quality products, financial discipline, and investment
- Sales growth of 20 percent to 25 percent per year
- Commission 33 Progressive cold forging systems
- Maintain research and development efforts for future initiatives
- Continual update of ancillary systems to support production and quality
- Upgrade the current facility and lease adjoining space to improve efficiencies
- Growth and retention of highly skilled workforce and management
- Commit to maintaining the environment through waste reduction, energy conservation, and recycling.

#### Outlook

In 2015, Omni-Lite will continue to focus on building revenue in the military, aerospace, and specialty automotive segments through on-going product development. The Aerospace division is experiencing growth due to a cyclical resurgence in the aerospace industry and a focus on some of the components that the Company manufactures for composite aircraft. The Specialty Automotive division is growing primarily due to an emphasis on new components focusing on “green” technology for diesel engines. With the “Vision 2020” strategy, Omni-Lite has purchased a large seven station progressive forging system. This system will be the most sophisticated at Omni-Lite, with five of the seven dies modified with the OD-Plus System, which provides for the opening and closing of the forging tooling, in real time, under high pressure. It is expected to be delivered to Omni-Lite by the third quarter of 2015.

## Selected Annual Consolidated Financial Information

All figures are in US dollars except as noted.

| Basic Weighted Average Shares Issued And Outstanding :<br>11,697,346 | For the period ended June 30, 2015 | For the year ended December 31, 2014 | For the year ended December 31, 2013 | For the year ended December 31, 2012 |
|--|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Revenue  | \$4,014,631                        | \$5,850,318                          | \$5,301,035                          | \$5,370,534                          |
| Net Income   | 879,894                            | 469,283                              | 137,949                              | 210,448                              |
| EPS (US)   | 0.08                               | 0.04                                 | 0.01                                 | 0.02                                 |
| Total Assets   | 22,327,921                         | 21,846,710                           | 22,336,473                           | 22,506,999                           |
| Long term debt   | -                                  | -                                    | 300,000                              | 923,781                              |

### Results from Operations

**Revenue:** For the period ended June 30, 2015, Omni-Lite reported revenue of \$4,014,631, an increase of 26 percent from the prior period.

The Aerospace division represented the largest portion of sales with 33 percent of revenue. Sales in this division were higher by 16 percent when compared to the period ended June 30, 2014. The Military division contributed 30 percent of revenue, an increase of 200 percent from the same period in 2014. The Specialty Automotive division contributed 22 percent of revenue, a 27 percent decrease from 2014. The Sports and Recreation division contributed 15 percent of revenue, a 39 percent increase from 2014.

Sales by division and by geographic location are summarized below:

| Division                  | Aerospace | Military | Specialty Automotive | Sport & Recreation |
|---------------------------|-----------|----------|----------------------|--------------------|
| 1 <sup>st</sup> Half 2015 | 33%       | 30%      | 22%                  | 15%                |
| 1 <sup>st</sup> Half 2014 | 36%       | 13%      | 38%                  | 13%                |

  

| Geographic Segment        | United States | Canada | Barbados |
|---------------------------|---------------|--------|----------|
| 1 <sup>st</sup> Half 2015 | 88%           | -      | 12%      |
| 1 <sup>st</sup> Half 2014 | 90%           | -      | 10%      |

**Net Income:** Net income was \$879,894 versus \$305,000 in 2014, an increase of 188 percent which was primarily due to increases in Military and Aerospace division revenue.

**Cost of Goods Sold:** Cost of Goods Sold (“COGS”) increased 24 percent from \$1,321,143 in 2014 to \$1,633,850 in 2015. Gross margins increased slightly in 2015 to 59 percent from 58.5 percent. New procedures continue to be developed and applied to improve production efficiencies.

**Operating Expenses:** Total operating expenses increased by 4 percent from the prior period due to increases in employee benefit costs supporting the increase in revenue. No interest expense was incurred in the period, since the Company repaid the long-term debt in full in October, 2014.

Research and product design (“R&D”) expense was \$13,433, an increase of 105 percent from the period ended June 30, 2014.

Current income tax expense increased to \$10,230 from \$5,655 in the prior period, continuing reduction by prior year tax loss carry-forwards. Deferred tax recovery increased to (\$46,200) from \$11,950 due to unused tax losses carried forward to future years. Deferred tax expense is an accounting policy that deals with the effect of temporary tax-to-book differences in the depreciation of equipment. For a capital-intensive company, such as Omni-Lite, these accounting considerations can have significant effects on cash flow.

**Earnings per share:** Basic earnings per share were \$0.08 compared to \$0.03 in 2014 based on the weighted average shares outstanding of 11,697,346 and 12,153,302 in 2014. Actual shares outstanding were 11,779,409. During the period, pursuant to a normal course issuer bid under applicable securities legislation, the Company acquired 185,200 of its issued and outstanding common shares.

The diluted earnings per share were \$0.07 compared to \$0.03 in 2014. At June 30, 2015, the diluted weighted average number of shares was 12,037,544. 200,000 (2014 – 215,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding, because their exercise price was greater than the annual average common share market price in the year.

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if options and warrants to issue common shares were exercised. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with standards approved by the Canadian Institute of Chartered Accountants.

#### SUMMARY OF FINANCIAL HIGHLIGHTS (US \$)

All figures in US dollars unless noted.

| <b>Basic Weighted Average Shares Issued And Outstanding: 11,697,346</b> | <b>For the period ended June 30, 2015</b> | <b>For the period ended June 30, 2014</b> | <b>% Increase (Decrease)</b> |
|---|---|---|------------------------------|
| Revenue   | \$4,014,631                               | \$3,182,790                               | 26%                          |
| Cash flow from operations <sup>(2)</sup>                                | 1,354,823                                 | 911,548                                   | 49%                          |
| Adjusted EBITDA <sup>(2)</sup>  | 1,344,507                                 | 886,929                                   | 48%                          |
| Net Income  | 879,894                                   | 305,000                                   | 188%                         |
| EPS (US)  | 0.08                                      | 0.03                                      | 263%                         |

<sup>(2)</sup> Cash flow from operations is a non-IFRS term requested by the oil and gas investment community that represents net earnings adjusted for non-cash items including depreciation, depletion and amortization, future income taxes, asset write-downs and gains (losses) on sale of assets, if any. Adjusted EBITDA is a non-IFRS financial measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation provision, gains (losses) on sale of assets, if any. These are non-IFRS financial measures, as defined herein, and should be read in conjunction with IFRS financial measures. These non-IFRS financial measures are not presented as an alternative to IFRS cash flows from operations, as a measure of our liquidity or as an alternative to reported net income as an indicator of our operating performance. The non-IFRS financial measures as used herein may not be comparable to similarly titled measures reported by other companies. We believe the use of Adjusted EBITDA and non-IFRS cash flow from continuing operations along with IFRS financial measures enhances the understanding of our operating results and may be useful to investors in comparing our operating performance with that of other companies and estimating our enterprise value. Adjusted EBITDA is also a useful tool in evaluating the operating results of the Company given the significant variation that can result from, for example, the timing of capital expenditures and the amount of working capital in support of our customer programs and contracts. We also use Adjusted EBITDA internally to evaluate the operating performance of the Company, to allocate resources and capital, and to evaluate future growth opportunities.

## Quarterly Information

The following table summarizes the Company's financial performance over the last eight quarters. All figures in US dollars unless noted.

ALL FIGURES IN US DOLLARS

|  | Jun<br>30/2015 | Mar<br>31/2015 | Dec<br>31/2014 | Sep<br>30/2014 | Jun<br>30/2014 | Mar<br>31/2014 | Dec<br>31/2013 | Sep<br>30/2013 | Jun<br>30/2013 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenue                                  | 2,241,296      | 1,773,335      | 1,038,770      | 1,628,758      | 1,809,465      | 1,373,325      | 1,182,752      | 1,667,030      | 1,395,314      |
| Cash Flow from Operations <sup>(2)</sup> | 1,354,823      | 525,354        | (104,004)      | 462,181        | 535,912        | 375,636        | 53,130         | 512,102        | 342,092        |
| Adjusted EBITDA <sup>(2)</sup>           | 831,276        | 513,231        | (93,019)       | 461,223        | 531,684        | 355,245        | 113,723        | 457,242        | 349,372        |
| Net Income (Loss)                        | 567,581        | 312,313        | (80,467)       | 244,750        | 262,401        | 42,599         | (254,297)      | 316,596        | 136,479        |
| EPS (Loss) - basic (US)                  | .048           | .027           | (.007)         | .021           | .022           | .003           | (.021)         | .026           | .011           |
| EPS (Loss) - diluted (US)                | .045           | .026           | (.007)         | .020           | .022           | .003           | (.021)         | .026           | .011           |

<sup>(2)</sup> See definition from Summary of Financial Highlights from prior page.

## Liquidity and Capital Resources

The following table summarizes the Company's cash flows by activity and cash on hand:

|  | Jun 30/2015  | Jun 30/2014 |
|--|--------------|-------------|
| Net cash from (used in) operating activities | \$ (128,474) | \$ 615,952  |
| Net cash used in financing activities        | (6,331)      | (285,312)   |
| Net cash used in investing activities        | (733,836)    | (348,404)   |
| Net decrease in cash                         | (868,641)    | (17,764)    |
| Cash at the beginning of the period          | 1,686,690    | 1,925,038   |
| Cash at the end of the period                | 818,049      | 1,907,274   |

At June 30, 2015, the sources of liquidity were cash from operating and financing activities and these amounts were used along with the beginning cash balances for equipment purchases executing the Vision 2020 plan. At the period end, the Company's working capital (current assets – current liabilities) was \$5,169,987, which has increased from 2014 when working capital was \$4,598,955.

A comparison between total current assets divided by total current liabilities shows that at June 30, 2015 the current ratio<sup>(3)</sup> was 10.4x compared to 12.1x at December 31, 2014. Debt ratio<sup>(3)</sup> ((Current liability + Total long-term debt)/Total Assets) increased slightly to 0.025x in 2015 compared to 0.02x in 2014. The Company is able to meet its debt service.

<sup>(3)</sup> Non-IFRS measure - certain supplementary measures in this MD&A do not have any standardized meaning as prescribed under IFRS and, therefore, are considered non-IFRS measures. These measures are described and presented in order to provide shareholders and potential investors with additional information regarding the Corporation's financial results, liquidity and its ability to generate funds to finance its operations. These measures are identified and presented, where appropriate, together with reconciliations to the equivalent IFRS measure. However, they should not be used as an alternative to IFRS because they may not be consistent with calculations of other companies.

Cash flow used in operating activities decreased by \$128,474 as operating expenditures from military sales are in excess of customer payments in the current period.

Cash flow used in financing activities was \$6,331. Options were exercised in the amount of \$194,826 in the current period (June 30, 2014 - \$nil). The Company repurchased common shares for \$193,780 (June 30, 2014 – \$109,477).

Cash flow used in investing activities was \$733,836. The Company paid deposits of \$211,669 in the current period for a new progressive cold forging system and to rebuild and upgrade two other systems.

The Company's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from our credit line, and long term debt securitized by real estate and equipment. At June 30, 2015, Omni-Lite had \$1,200,000 of available credit on the primary credit facility.

The terms of the long-term primary credit facility requires that certain measurable covenants be met. At June 30, 2015, the Company has met these covenants.

### Capital Disclosures

The objective for managing the Company's capital structure is to ensure that the Company has the financial capacity, liquidity and flexibility to fund expansion projects and product development efforts. The Company generally relies on operating cash flows to fund expansion and product development. However, given the long cycle time of some of the development projects, which require significant capital investment prior to cash flow generation; it is not unusual for capital expenditures to exceed cash flow from operating activities in any given year. The Company's financing needs depend on the timing of expected net cash flows from new products and sales of current products. This requires the Company to maintain financial flexibility and liquidity. The Company's capital management policies are aimed at:

Maintaining an appropriate balance between short-term borrowings, long-term debt and shareholders' equity; maintaining sufficient undrawn committed credit capacity to provide liquidity; ensuring ample covenant room permitting it to draw down credit lines as required; and ensuring the Company maintains a credit rating that is appropriate for their circumstances.

As a capital equipment-intensive company, Omni-Lite's management measures the performance of the Company by the metrics of Cash Flow from Operations and EBITDA<sup>(1)</sup>. The calculation of EBITDA<sup>(1)</sup> and adjusted EBITDA<sup>(1)</sup> on a 12-month rolling basis is set out in the following table.

|                                       | <b>June 30, 2015</b> | June 30, 2014 |
|---------------------------------------|----------------------|---------------|
| Net Income                            | <b>\$ 1,044,177</b>  | \$ 367,299    |
| Add:                                  |                      |               |
| Interest expense (income)             | <b>(28,603)</b>      | (11,053)      |
| Provision (recovery) for income taxes | <b>(347,329)</b>     | (24,333)      |
| Write down of inventory               | -                    | -             |
| Depreciation                          | <b>976,991</b>       | 981,427       |
| <b>EBITDA</b>                         | <b>\$ 1,645,236</b>  | \$ 1,313,340  |
| Add:                                  |                      |               |
| Stock based compensation              | <b>47,475</b>        | 87,920        |
| Non-recurring items                   | <b>20,000</b>        | 56,634        |
| <b>Adjusted EBITDA</b>                | <b>\$ 1,699,111</b>  | \$ 1,457,894  |

<sup>(1)</sup> "EBITDA" is a non-IFRS term which represents earnings or losses before net interest expense, income taxes, depreciation and amortization, and non-controlling interests. Adjusted EBITDA is a non-IFRS financial measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation provision, gains (losses) on sale of assets, if any. These are non-IFRS financial measures, as defined herein, and should be read in conjunction with IFRS financial measures. These non-IFRS financial measures are not presented as an alternative to IFRS cash flows from operations, as a measure of our liquidity or as an alternative to reported net income as an indicator of our operating performance. The non-IFRS financial measures as used herein may not be comparable to similarly titled measures reported by other companies. We believe the use of Adjusted EBITDA and non-IFRS cash flow from continuing operations along with IFRS financial measures enhances the understanding of our operating results and may be useful to investors in comparing

our operating performance with that of other companies and estimating our enterprise value. Adjusted EBITDA is also a useful tool in evaluating the operating results of the Company given the significant variation that can result from, for example, the timing of capital expenditures and the amount of working capital in support of our customer programs and contracts. We also use Adjusted EBITDA internally to evaluate the operating performance of the Company, to allocate resources and capital, and to evaluate future growth opportunities.

## Risk Factors

Please see the 2014 Annual Financial Statements and Management Discussion & Analysis for full disclosure of risk factors potentially affecting Omni-Lite.

### Asset Protection

As Omni-Lite's revenues increase, the Company becomes subject to increasing interest from corporations that would like to imitate the successes that have been achieved. The Company has and will continue to aggressively protect itself through a variety of means that include:

- Patent and trademark protection – The Company protects novel ideas and processes developed at Omni-Lite by filing with the U.S. Patent Office.
- Confidentiality agreements – These agreements prevent employees and third parties from sharing any information considered proprietary with unauthorized individuals or companies.

Of particular significance is the fact that Omni-Lite has received seven U.S. patents to date and applied for the eighth patent in the fourth quarter of 2012.

### Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, loans due from related parties, investment, accounts payable and accrued liabilities, and current portion of long-term debt.

|   | June 30, 2015  |            | December 31, 2014 |              |
|---|----------------|------------|-------------------|--------------|
|   | Carrying Value | Fair Value | Carrying Value    | Fair Value   |
| <b>At fair value through profit or loss</b> |                |            |                   |              |
| Cash  | \$ 818,049     | \$ 818,049 | \$ 1,686,690      | \$ 1,686,690 |
| <b>Loans and receivable</b>                 |                |            |                   |              |
| Accounts receivable                         | 1,767,378      | 1,767,378  | 759,062           | 759,062      |
| Due from related parties                    | 1,457,146      | 1,457,146  | 1,457,047         | 1,457,047    |
| <b>Available for sale</b>                   |                |            |                   |              |
| Investment                                  | 319,490        | 319,490    | 436,498           | 436,498      |
| <b>Other financial liabilities</b>          |                |            |                   |              |
| Accounts payable and accrued liabilities    | 538,480        | 538,480    | 414,869           | 414,869      |

The table below sets out fair value measurements using the fair value hierarchy.

|               | Total      | Level 1    | Level 2 | Level 3 |
|---------------|------------|------------|---------|---------|
| <b>Assets</b> |            |            |         |         |
| Cash          | \$ 818,049 | \$ 818,049 | \$ -    | \$ -    |
| Investment    | 319,490    | 319,490    | -       | -       |

There have been no transfers during the period between Levels 1 and 2.

The carrying values of accounts receivable, accounts payable and accrued liabilities and current portion of long-term debt approximate their fair value due to their short-term nature.

The fair value of the Company's due from related parties approximate their fair values due to the interest rates applied to these instruments, which approximate market interest rates.

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to various risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company does not use off statement of financial position contracts to manage these risks

#### Foreign currency risk

A significant portion of the Company's operations are located outside of the United States and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates.

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the U.S. dollar. At June 30, 2015, the Company had the following balances denominated in Canadian dollars. The balances have been translated into U.S. dollars in accordance with the Company's foreign exchange accounting policy.

|                  | <b>U.S. Dollar</b>   | U.S. Dollar       |
|------------------|----------------------|-------------------|
|                  | <b>June 30, 2015</b> | December 31, 2014 |
| Cash             | \$ 67,366            | \$ 15,304         |
| Accounts payable | 37,601               | 76,942            |

Omni-Lite operates with a U.S. dollar functional currency which gives rise to currency exchange rate risk on Omni-Lite's Canadian dollar denominated monetary assets and liabilities, such as Canadian dollar bank accounts and accounts payable, as follows:

|  | <b>Impact on Net Income</b> |
|--|-----------------------------|
| U.S. Dollar Exchange Rate – 10% increase | \$ (2,977)                  |
| U.S. Dollar Exchange Rate – 10% decrease | 2,977                       |

#### Other Price Risk

The Company has financial instruments that may fluctuate in value as a result of changes in market price. The Company has an investment in shares of California Nanotechnologies Corp. This investment is recorded on the consolidated statement of financial position at fair value as of the statement of financial position date with changes from the prior year's fair value reported in OCI. A change in the price of the investment would have an impact of \$3,195 (December 31, 2014 - \$4,365).



### Liquidity Risk

The Company is exposed to liquidity risk due to the borrowings under the credit facilities. This risk is mitigated by complying with the covenants and managing the cash flow by controlling receivables and payables.

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at June 30, 2015:

|  | ≤ 1 year   | > 1 year<br>≤ 3 years | > 3 year<br>≤ 4 years | > 5 years | Total      |
|--|------------|-----------------------|-----------------------|-----------|------------|
| Accounts payable and accrued liabilities | \$ 538,480 | \$ -                  | \$ -                  | \$ -      | \$ 538,480 |
| Total                                    | \$ 538,480 | \$ -                  | \$ -                  | \$ -      | \$ 538,480 |

### Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the period ended June 30, 2015, the Company was engaged in contracts for products with three (June 30, 2014 – three) customers in excess of 10% of revenue, which accounted for \$2,480,521 (June 30, 2014 - \$2,232,853) or 62% (June 30, 2014 – 70%) of the Company's total revenue. During the same period, there were no export sales (June 30, 2014 – nil) to customers in various international countries in excess of 10% of revenue. The maximum exposure to credit risk is the carrying value of account receivable, cash and loans due from related parties. The table below provides an analysis of the age of our past due accounts receivables which are not considered impaired.

| Total        | Current      | ≤ 30 days  | > 30 days<br>≤ 60 days | 60 days<br>≤ 90 days | > 90 days |
|--------------|--------------|------------|------------------------|----------------------|-----------|
| \$ 1,767,378 | \$ 1,298,956 | \$ 261,209 | \$ 141,505             | \$ 65,708            | \$ -      |

### Outstanding Share Capital

As at July 17, 2015:

- 11,796,075 Common Shares issued and outstanding
- Stock options:

| Description                          | Number    |
|--------------------------------------|-----------|
| Options outstanding at June 30, 2014 | 1,025,667 |
| Options - granted                    | -         |
| - exercised                          | (16,666)  |
| - forfeited                          | (16,666)  |
| - expired                            | -         |
| Options outstanding at July 17, 2015 | 992,335   |
| Options exercisable at July 17, 2015 | 529,000   |

### Transactions with Related Parties

Due from related parties includes advances to a company under common management. An amount of \$1,030,955 (December 31, 2014 - \$1,027,911) is due from California Nanotechnologies Corp. bearing interest at 2% per annum and due on demand. The loan is secured by all the assets of California Nanotechnologies Corp. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of California Nanotechnologies Corp.

For the six month period ended June 30, 2015, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value of the annual salary would approximate \$80,000 (June 30, 2014 - \$80,000). Due to the lack of independent evidence with respect to the fair value of these services, this transaction has been recorded at the carrying amount of \$nil.

The Company has outstanding an unsecured interest free loan to one employee under the Company's *Greenhouse Gas Reduction Incentives for Employees* program in the amount of \$20,000 (December 31, 2014 - \$20,000), forgiven after five years of service time, related to the acquisition of property with a maturity date in 2017. A loan of this type to one previous employee is included in bad debt in the prior year amount of \$20,000. Another employee has received a loan related to the purchase of a hybrid/electric car under the Company's *Greenhouse Gas Reduction Incentives for Employees* program in the amount of \$5,000 with \$1,000 forgiven annually for service time and with a maturity date in 2018. Other employees have received unsecured interest free loans from the Company with amounts due totalling \$4,935 (December 31, 2014 - \$7,059), with a current portion of \$4,935 (December 31, 2014 - \$7,059), repayable in bi-weekly installments with maturity dates in 2015. The Company has issued a loan due on demand to the Chief Executive Officer for \$401,191 (December 31, 2014 - \$397,077) at a 2% interest rate. The loan is secured by the Chief Executive Officer's related residential property.

### Third Party Investor Relations Contracts

In April 2015, Mikel Damke of Calgary, Alberta was appointed Executive Assistant to the CEO. As such, Mr. Damke will assist with communications between the Company, current and prospective shareholders, stockbrokers, analysts and the media. His remuneration for this six month contract which began April 1, 2015 is \$5,500.00 CAD per month. In addition to this remuneration, the Company has been advised that Mr. Damke owns shares in Omni-Lite.

### Board of Directors

Of the Company's four directors, three are material shareholders. Currently, there is one director position open.

### International Operations

In September 1997, Omni-Lite Industries Canada Inc. was established by the amalgamation of Omni-Lite Industries Inc. and Omni-Lite Industries Corp., which were both incorporated in Calgary, Alberta. To support the international scope of the market place, Omni-Lite has established two wholly owned subsidiaries in Barbados. These complement the production center in Cerritos, California. The Cerritos production center is located in the heart of Southern California's aerospace industry which facilitates access to customers, specialized equipment, materials, and workforce. The staff in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

The Company allocates its revenues between countries based on the location that has title to the contract. The Company has utilized and reported revenues based on the Company locations for each of these segments as follows:

| June 30, 2015     | United States | Canada | Barbados   | Inter-corporate<br>elimination | Total        |
|-------------------|---------------|--------|------------|--------------------------------|--------------|
| Revenue           | \$ 3,628,179  | \$ -   | \$ 500,772 | \$ (114,320)                   | \$ 4,014,631 |
| Net income/(loss) | 514,100       | (797)  | 366,591    | -                              | 879,894      |

  

| June 30, 2014 | United States | Canada   | Barbados   | Inter-corporate<br>elimination | Total        |
|---------------|---------------|----------|------------|--------------------------------|--------------|
| Revenue       | \$ 2,972,204  | \$ -     | \$ 336,974 | \$ (126,388)                   | \$ 3,182,790 |
| Net income    | 133,478       | (23,307) | 194,829    | -                              | 305,000      |

### **New accounting policies**

On January 1, 2014, the Company adopted the following new standards and amendments that became effective for annual periods on or after January 1, 2014:

- i. IAS 36, “Impairment of Assets” was amended to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of this amendment had no material impact on the Company's consolidated financial statements.
- ii. IFRS Interpretations Committee (“IFRIC”) 21 “Levies” clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs. The adoption of this standard had no material impact on the Company's consolidated financial statements.
- iii. IFRS 2, “Share-based payment” - Annual Improvements to IFRSs 2010–2012 Cycle” was issued in December 2013. The definitions of 'vesting conditions' and 'market condition' were amended and the definitions of 'performance condition' and 'service condition' were added. An entity is required to prospectively apply that amendment to share-based payment transactions for which the grant date is on or after July 1, 2014. The adoption of this amendment had no material impact on the Company's consolidated financial statements.
- iv. “Annual Improvements to IFRSs 2010–2012 Cycle” was issued in December 2013. The amendments to IFRS 8 require that an entity disclose the judgments made by management in applying the aggregation criteria to allow two or more operating segments to be aggregated. The amendments affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The adoption of this amendment had no material impact on the Company's consolidated financial statements.

### **Future accounting policies**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and assessed that the following pronouncements are applicable to the Company:

IFRS 9, “Financial Instruments” - On November 12, 2009, the IASB issued IFRS 9, “Financial Instruments” (“IFRS 9”), which will replace IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”). The standard was to be effective for annual periods beginning on or after January 1, 2015. In February 2014, the IASB tentatively decided the mandatory effective date of the final IFRS 9 would now be January 1, 2018. IFRS 9 applies to classification and measurement of financial assets as defined in IAS 39. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The Company has not yet considered the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, “Revenue from contracts with customers” - On May 28, 2014, the IASB issued IFRS 15, “Revenue from contracts with customers”. IFRS 15 will replace existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The standard outlines a single comprehensive model for entities for revenue recognition arising from contracts with customers. The Company has not yet considered the impact of IFRS 15 on its consolidated financial statements.

### Forward-looking statements

In the interest of providing Omni-Lite shareholders and potential investors with information regarding the Company and its subsidiaries, including Management’s assessment of Omni-Lite’s future plans and operations, certain statements contained in this document constitute forward-looking statements or information (collectively referred to herein as “forward-looking statements”) within the meaning of the “safe harbour” provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “forecast”, “target”, “project” or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this document include, but are not limited to, statements with respect to: projections relating to the adequacy of the Company’s provision for taxes; the potential impact of implementation of Vision 2020 on Omni-Lite’s financial condition and projected 2015 capital investment. Although these “forward-looking” statements are based on currently available competitive, financial and economic data and operating plans, they are subject to risks and uncertainties. In addition to general global events outside the Company’s control, there are factors which could cause actual results, performance or achievements to vary from those expressed or inferred herein including risks associated with an investment in the common shares of the Company and the risks related to the Company’s business. Risk factors are discussed in greater detail in the section on “Risk Factors” previously in this MD&A. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company’s actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Furthermore, the forward-looking statements contained in this document are made as of the date of this document, and except as required by law Omni-Lite does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

### Intention of management’s discussion and analysis

This MD&A is intended to provide an explanation of financial and operational performance compared with prior periods and the Company’s prospects and plans. It provides additional information that is not contained in the Company’s consolidated financial statements.

### Additional Omni-Lite documents are filed with Canadian regulatory agencies

Further information regarding Omni-Lite Industries Canada Inc. can be accessed under the Company’s public filings found at [www.sedar.com](http://www.sedar.com) and on the Company’s website [www.omni-lite.com](http://www.omni-lite.com).