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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Omni-Lite Industries Canada, Inc.

Speculative Buy

John Nobile
November 1, 2016

OLNCF $1.29 — (OTC)

	2014A	2015A	2016E	2017E
Revenues (millions)	$5.9	$7.5	$8.0	$9.3
Earnings (loss) per share	$0.04	$0.07	$0.14	$0.20

52-Week range	$1.49 – $1.19	Fiscal year ends:	December
Common shares out as of 10/19/16	10.4 million	Revenue per share (TTM)	$0.61
Approximate float	8.6 million	Price/Sales (TTM)	2.1X
Market capitalization	$13 million	Price/Sales (FY2017)E	1.6X
Tangible book value/share	$1.75	Price/Earnings (TTM)	14.3X
Price/tangible book value	0.7X	Price/Earnings (FY2017)E	6.5X

Headquartered in Cerritos, CA, Omni-Lite Industries Canada Inc. is a research and development company specializing in the manufacture of precision components forged from advanced composite and other alloyed materials. (www.omni-lite.com)

Key investment considerations:

We are reiterating our Speculative Buy rating on Omni-Lite Industries Canada, Inc. (OLNCF) but lowering our twelve-month price target to $1.40 per share ($1.60 previously) based on a decrease in our 2017 estimates.

Omni-Lite's sales have grown at a compound annual growth rate of 12% over the past three years driven by its patented cold forging processes which has enabled the company to be the sole source supplier for over 70% of the components it manufactures. However, sales growth should slow to 7% in 2016 with slowing military sales (down approximately 33% year-to-date). Sales should grow 15% in 2017 driven by new orders (which have resulted in a book-to-bill ratio of 1.2 as of August 31, 2016).

In September 2016, Omni-Lite Industries announced it received approximately $1.2 million of new orders. This brings the total value of the new orders announced in 2016 to over $6.8 million.

We have reduced our 2016 revenue projection to $8 million from $9.4 million due primarily to slowing military sales (down approximately 33% year-to-date). Our net income projection is reduced to $1.6 million or $0.14 per share from $2.3 million or $0.20 per share.

Although new orders should increase 2017 revenue 15% to $9.3 million, this is down from our previous projection of $10.8 million due primarily to reduced military demand. Our net income projection is reduced to $2.2 million or $0.20 per share from $2.9 million or $0.26 per share.

Omni-Lite reported (10-20-2016) 3Q16 revenue increased 9% to $2.2 million. Net income was $505,000 or $0.04 per share compared to $370,000 or $0.03 per share in 3Q15. We projected 3Q16 revenue of $2.8 million and net income of $808,000 or $0.07 per share.

****Please view our disclosures on pages 13 - 15.***

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on Omni-Lite Industries Canada, Inc. (OLNCF) but lowering our **twelve-month price target to $1.40 per share ($1.60 previously)** based on a decrease in our 2017 estimates**.**

Shares of Omni-Lite trade at a significant discount to its peers (see chart below) due arguably to limited recognition of the company's growth potential.

Name	Symbol	Price	Market Cap $M	Trailing P/E	Forward P/E
RBC Bearings, Inc.	ROLL	70.53	1,630	24.2	19.1
TriMas Corporation	TRS	18	818	NMF	13.0
NN, Inc.	NNBR	17.42	473	NMF	9.2
Ampco-Pittsburgh Corporation	AP	10.55	129	NMF	NA
Eastern Company	EML	19.35	121	17.3	NA
SIFCO Industries, Inc.	SIF	10.3	56	NMF	NA
Chicago Rivet & Machine Co.	CVR	29.93	29	13.8	NA
Peer Average			**465**	**18.4**	**13.8**
Company					
Omni-Lite Industries Canada, Inc.	**OLNCF**	**1.29**	**13**	**14.3**	**6.5**
Source: Taglich Brothers estimates, Yahoo! Finance					

Omni-Lite currently trades at a multiple of 7X our 2017 EPS projection. Omni-Lite's peer group trades at a forward multiple 14X. We applied the current multiple of 7X to our 2017 EPS projection of $0.20 to obtain a year-ahead value of $1.40 per share.

Recent Developments

<u>*New Orders*</u> – In September 2016, Omni-Lite Industries announced it received approximately $1.2 million of new orders. This brings the total value of the new orders announced in 2016 to over $6.8 million. As of August 31, 2016, the company's book-to-bill ratio was in excess of 1.2.

<u>*Share Repurchase*</u> – In September 2016, Omni-Lite announced it repurchased 529,900 of its common shares since May 25, 2016.

<u>*Resignation of CFO*</u> - In October 2016, Omni-Lite Industries announced the resignation of Tim Leybold as chief financial officer (CFO). The company is currently assessing candidates to fill this vacancy. In the interim, David Grant, CEO, has been appointed to fulfill the role of CFO.

Company Overview

Headquartered in Cerritos, CA, Omni-Lite Industries Canada Inc. is a 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. Cold forging involves the use of sophisticated, computer-controlled machines that forge metal parts from round wire feedstock using exceptionally high pressure. The results are a very precise end product (tolerances of 0.0005 inches), virtually no raw material wastage, and high volume production capability (up to 300 parts can be produced in one minute).

Omni-Lite Industries Canada Inc. was established by the amalgamation of Omni-Lite Industries Inc. and Omni-Lite Industries Corp., both incorporated in Calgary, Alberta. To support the international scope of the marketplace, Omni-Lite established subsidiaries in Barbados to complement its production center in Cerritos, California. OLNCF's staff in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

Omni-Lite operates four business segments: Military, Aerospace, Specialty Automotive, and Sports and Recreational. Military sales accounted for 30% of total sales in 2015, Aerospace 34%, Specialty Automotive 23%, and Sports and Recreation 13%. The company serves customers primarily in the US, Canada, and the Barbados. Some of the company's customers (shown at right) include Fortune 500 companies such as Boeing, Alcoa, Ford, Chrysler, Borg Warner, John Deere, Nike, and the U.S. Military.

Military Division – Omni-Lite manufactures special couplings for use with the Mk19 grenade launcher for the US Army. The Mk19 grenade launcher is used by the armed forces of both the US and NATO. Omni-Lite also manufactures patented products for the M-16 and .38 caliber arsenal (see picture at right) for the US government.

38 calibre Head Cap for US Military

Source: Omni-Lite Industries

Aerospace Division – Omni-Lite manufactures components that are utilized in the engine housings and tail sections of jet aircraft as well as in pumps that are used in nuclear submarines and armored vehicles. Omni-Lite's products are ideally suited to aerospace applications due to their precision and light weight nature.

Automotive Division – Omni-Lite's automotive division was established through the development of a series of transmission components utilized in the transmissions of Daimler-Chrysler automobiles (see picture at right). This technology has since been used to produce brake, engine and transmission components utilized in approximately 6 million vehicles annually (35% of North American auto production).

Transmission Valves for Daimler-Chrysler

Source: Omni-Lite Industries

Automobile manufacturers strive to find alternative components which are lighter and stronger in order to enhance both the safety and fuel economy of their vehicles. It is estimated that the weight of the average car can be reduced by several hundred pounds if the steel bolts were replaced by the light-weight components (such as those manufactured by Omni-Lite).

Sports and Recreation Division – Omni-Lite manufactures track spikes that are standard features in the track shoes designed and manufactured by the world's leading athletic shoe manufacturers including Nike, Adidas, Reebok, Puma, and New Balance. The company's ultra-lite ceramic track spikes feature patented space-age ceramic material 1/3 the weight of traditional steel spikes, a patented design that compresses the track to provide more energy back to the athlete, they will not rust or corrode, and will not damage the track. Omni-Lite's compression style track spikes are mandatory at several track facilities and the company has captured a majority (over 50%) of the OEM track spike market.

Metal Forging Industry

The metal forging industry manufactures forged metal products that are compressed in hot or cold temperatures. Forging is the process by which metals are shaped by applying compressive force. Many manufacturing sectors use forged metal in the production of aerospace systems, defense equipment, agricultural and other machinery.

Forgings that are used in the aerospace market include manufacturers of aircraft, aircraft engines and related parts for both commercial and military applications. Forged metal components are used in virtually every area of defense, including rifle triggers, mortar shells and submarine drive shafts. The automotive market uses forged products such as crankshafts, connecting rods, rod caps, camshafts, rocker arms, valves, gears, shafts, levers and linkages.

The quality of forged products is the key determinant of a customer's purchasing decision. IBISWorld reported that more than 60% of respondents in a survey conducted by the US International Trade Commission ranked casting quality as the number one factor affecting purchasing decision. This factor is the primary reason why this industry faces less competition from imports than many other US manufacturers. Quality is favored over price and domestic manufacturers produce the best product.

Moderately high barriers to entry aid the industry's profitability. IBISWorld reported that industry participants require significant investment to obtain forging machines. Many clients only deal with certified suppliers. According to McGraw Hill, a certified supplier is a supplier who has demonstrated reliability by providing the buyer with quality goods and services at desirable prices, usually in accord with strict delivery specifications. Experience within the industry is also beneficial to gain contracts with manufacturers that have specific or high quality requirements. For this reason, many clients build strong relationships with experienced metal forging companies making it difficult for new entrants to attract customers.

Markets

Omni-Lite operates four business segments: Military, Aerospace, Specialty Automotive, and Sports and Recreational. Gross margins are highest for the company's aerospace and military segments and lowest for its automotive and sports and recreation segments.

Aerospace – In this market, the company manufactures jet engine components that are utilized in the engine housings and tail sections of jet aircraft as well as pumps that are used in nuclear submarines. According to IBISWorld (May 2016), the US is the largest aircraft manufacturer in the world. Military and civilian aircraft engines and engine parts is a $48 billion market. Manufacturers have been using more composite materials in order to reduce weight and maintenance costs. While IBISWorld's projection for the overall aircraft, engine and parts manufacturing industry is for average annual growth of 4.1% into 2022, sales of aircraft engines and engine parts are expected to increase as a percentage of industry revenue as new fuel-efficient commercial aircraft require the industry's newest engine models.

Military – In this market, the company manufactures special couplings for use with the Mk19 grenade launcher for the US Army and patented products for the M-16 and .38 caliber arsenal for the US government. According to IBISWorld (August 2016), the guns and ammunition manufacturing market is a $16.2 billion market of which the military is responsible for 22.6% or $3.7 billion of this market. Based on President Obama's fiscal 2017 budget request, US Army, Navy and Marine outlays for ammunition, small arms, ordnances and similar munitions are anticipated to increase more than 6.5% between 2016 and 2020. Increased combat operations in Iraq and Syria are helping to drive this growth.

Automotive – In this market, the company manufactures transmission components, components for diesel engines, and brake components. According to IBISWorld (September 2016), the auto parts manufacturing market is a $73.2 billion market and is projected to average growth of only 1% annually through the six years to 2022. However, changes in regulations and customer preference are driving research aimed at reducing vehicle weight and increasing performance. Even though current gas prices are relatively low compared to previous years, consumer preferences have continued to prompt automakers to produce smaller vehicles with superior fuel economy. In order to meet these goals, automakers are working with suppliers more frequently to reduce the weight of component systems and improve performance.

Sports and Recreational – In this market, the company manufactures ultra-lite ceramic track spikes. According to an article by athletic timing system manufacturer Free Lap USA[1], athletic shoes are a $75 billion market with American consumers responsible for $14 billion of that. While Free Lap USA says that it is hard to pinpoint what percent of that market track spikes are a part of, we believe it is valued at no more than $2 million annually judging by OLNCF's 2015 sales of approximately $1 million to this market of which it claims to have more than a 50% market share.

IBISWorld forecasted (April 2016) athletic shoe store industry revenue to grow at an average annual rate of 3.2% in the six years to 2022 as consumers spend more on discretionary products such as athletic shoes.

Competition; Competitive Advantage

Omni-Lite's direct competition comes from older technologies that produce components through turning or lathing processes. According to the Forging Industry Association, these older technologies produce products that are more susceptible to fatigue and stress corrosion and are more costly. Omni-Lite's proprietary and patented cold forging processes have enabled the company to offer one of the most cost effective manufacturing techniques.

Omni-Lite's expertise within its particular markets has resulted in the company being the sole source supplier for over 70% of the 100 million components it manufacturers on an annual basis. Expertise of a particular product is beneficial in the metal forging industry in gaining contracts with manufacturers that have specific or high quality requirements (such as Omni-Lite's customers). For this reason, many clients build strong relationships with experienced metal forging companies making it difficult for new entrants to attract customers.

Strategy

Omni-Lite's strategy is to focus on growing revenue in the aerospace, military, and specialty automotive segments through on-going product development and organic customer growth.

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 eight US Patents covering innovations in materials, processes, and design. To gain access to new nanostructured materials and technical services, Omni-Lite invested in California Nanotechnologies Corp. (CNO). Approximately 18 percent of outstanding shares of CNO are held by Omni-Lite.

In 2016, Omni-Lite increased the total area of its Southern California facility by 76% to approximately 47,000 square feet which allowed for the installation of seven new cold forging systems. This enabled Omni-Lite to increase its annual capacity to approximately $30 million revenue.

The company's aerospace division is experiencing growth due to a cyclical resurgence in the aerospace industry and a focus on some of the composite components that the company manufactures for aircraft. According to a report by Deloitte[2], the global aerospace sector is poised for a rebound in 2016 after relatively flat growth in 2015. One factor driving this growth will be record production levels. Deloitte forecasts a compound annual growth rate (CAGR) of approximately 3% for global aircraft production over the five years to 2021.

The specialty automotive division is growing primarily due to an emphasis on new components focusing on "green" technology for diesel engines.

1. https://www.freelapusa.com/the-history-of-track-spikes/. Free Lap USA. Retrieved August 2016.
2. "2016 Global aerospace and defense sector outlook, Poised for a rebound". (January 2016). Deloitte Touche Tohmatsu Limited.

3Q and Nine-Months 2016 Financial Results

<u>*3Q16*</u> – Revenue increased 9% to $2.2 million. Net income increased to $505,000 or $0.04 per share from $370,000 or $0.03 per share in 3Q15. We projected 3Q16 revenue of $2.8 million and net income of $808,000 or $0.07 per share. The shortfall was primarily due to lower aerospace and military market sales than previously anticipated.

The increase in revenue was primarily due to increased military sales stemming from a new order for a legacy military product. Gross profit increased to $1.5 million from $1.2 million. Gross margins increased to 66.8% from 60.7% due primarily to a favorable product mix (higher margin military sales).

Total operating expenses remained relatively flat at $836,000. Operating income increased to $615,000 from $368,000 for margins of 28.3% versus 18.4% due to higher gross profit on relatively flat operating expenses. The company paid $117,000 in income tax.

<u>*Nine-Months 2016*</u> – Revenue decreased 4% to $5.8 million. Net income decreased to $1.1 million or $0.09 per share from $1.3 million or $0.10 per share in 1H15.

The decrease in total revenue was primarily due to the late initiation of a key military program (shipping started in June 2016 versus January a year earlier due to a government change in the specifications). We previously projected increased demand for Omni-Lite's military products would have occurred in 2H16, but increased demand has not yet come to fruition. Gross profit decreased to $3.5 million from $3.6 million. Gross margins increased to 61.4% from 59.8% primarily due to improved manufacturing efficiencies.

Total operating expenses increased to $2.6 million from $2.4 million in the comparable period in 2015 with general and administrative expenses contributing the largest share of the increase due primarily to the additional costs associated with the February 2016 listing on the OTC market. Operating income decreased to $953,000 from $1.2 million for margins of 16.5% versus 19.9% due to lower gross profit and higher operating expenses. The company realized a $112,000 tax benefit related to tax loss carry-forwards.

Income Statement
(in thousands $)

	9m16A	9m15A
Revenue	5,769	6,017
Cost of goods sold	2,226	2,421
Gross profit	3,543	3,596
Employee benefits	894	899
General and administrative	778	683
Depreciation	775	740
Other operating expenses	143	76
Income (loss) from operations	953	1,198
Interest income	21	23
Other income (loss)	-	-
Income (loss) before income taxes	974	1,221
Income tax (benefit)	(112)	(29)
Net income	1,086	1,250
EPS	0.09	0.10
Shares Outstanding	11,609	12,088
<u>Margin Analysis</u>		
Gross margin	61.4%	59.8%
Operating margin	16.5%	19.9%
Net margin	18.8%	20.8%
<u>Year / Year Growth</u>		
Total Revenues	(4.1)%	
Net Income	(13.1)%	
EPS	(9.5)%	

Source: Company filings

<u>*Liquidity*</u> – Omni-Lite has a strong balance sheet. As of September 30, 2016, the company had $535,000 cash, a current ratio of 12X versus 3.4X for the metal fabrication industry, no debt, with approximately 85% of assets covered by equity. By our forecasts, the company should have sufficient capital to meets its operational needs through 2017.

Cash provided by operations in the first nine months of 2016 was approximately $1.3 million consisting of cash earnings of $1.9 million and a $512,000 increase in working capital. The change in working capital was primarily due to increased accounts receivable and inventory. Cash used in investing consisted primarily of $748,000 of capital expenditures. Cash used in financing consisted primarily of $1.1 million for the repurchase of common shares. Cash decreased by $516,000 to $535,000 at September 30, 2016.

The company has a $2.4 million credit facility consisting of a term loan facility of up to $1.2 million and a commercial advance line of up to $1.2 million. The credit facility bears interest at the prime rate plus 0.25% and matures on January 30, 2017. There were no outstanding balances on this credit facility as of September 30, 2016.

Economic Outlook

Although most of the company's revenue are generated in the US, and economic growth forecasts have been reduced for that region, the projected growth for Omni-Lite's target markets should support good sales growth for the company through our forecast horizon. Growth for the aerospace market is projected at 4.1% annually into 2022 (IBISWorld May 2016) while the latest budget request for the military munitions market is for approximately 6.5% growth into 2020. While slow growth is projected for the automotive parts manufacturing market, changes in regulations and customer preferences are driving research aimed at reducing vehicle weight and increasing performance.

In October 2016, the International Monetary Fund (IMF) projected global economic growth of 3.1% in 2016 and 3.4% in 2017, unchanged from an earlier (July 2016) growth forecast. The growth estimate primarily reflects the continued subdued outlook for advanced economies following the June 23, 2016 vote in the United Kingdom to leave the European Union.

In October 2016, the IMF lowered its economic growth estimate for the US to 1.6% in 2016, and 2.2% in 2017, down from an earlier (July 2016) growth forecast of 2.2% for 2016 and 2.5% for 2017. The IMF said that although job creation has been healthy, the housing market has been improving, and consumer spending remains robust, a prolonged inventory correction and weak business investment prompted the downward revision.

The advance estimate of US GDP growth (released on October 28, 2016) showed the US economy grew at an annual rate of 2.9% in 3Q16, up from 1.4% growth in 2Q16. The 3Q16 US GDP growth estimate primarily reflects a rise in consumer spending on services and durable goods, and increased exports of goods and services. Partly offsetting these contributions to GDP growth were declines in housing investment, consumer spending on nondurable goods, and government spending.

Projections

2016 – We have reduced our revenue projection to $8 million from $9.4 million due primarily to slowing military sales (down approximately 33% year-to-date). We previously projected increased demand for Omni-Lite's military products would have occurred in 2H16, but increased demand has not yet come to fruition. Our net income projection is reduced to $1.6 million or $0.14 per share from $2.3 million or $0.20 per share. Our $8 million revenue projection is in line with the current year-to-date revenue mix and should be made up of $3 million or 38% of total revenue to the aerospace market, $2.7 million or 34% to the automotive market, $1.3 million or 16% to the military market, and $1 million or 12% to the sports and recreation market.

We project gross margins of 62%, in line with year-to-date gross margins. Gross margins are highest for the company's aerospace and military segments and lowest for its automotive and sports and recreation segments. We project employee benefits will remain near current levels of $1.2 million annually as they have been relatively stable over the past two years. We project general and administrative expenses will increase to $1.1 million in 2016 from $905,000 in 2015 due primarily to increased compensation costs. The company should only pay minimal taxes due to its large amount of net operating loss carryforwards ($1.7 million as of December 31, 2015).

We project $2.7 million cash from operations primarily from cash earnings. Cash from operations should more than offset our projected $1 million in capital expenditures and $1.1 million for the repurchase of common shares increasing cash by $567,000 to $1.6 million at December 31, 2016.

_2017_ – We have reduced our revenue projection to $9.3 million from $10.8 million due primarily to reduced military demand. Our net income projection is reduced to $2.2 million or $0.20 per share from $2.9 million or $0.26 per share. Our $9.3 million revenue projection should be made up of $3.5 million or 38% of total revenue to the aerospace market, $3.2 million or 35% to the automotive market, $1.5 million or 16% to the military market, and $1 million or 11% to the sports and recreation market. Growth will be driven primarily by orders received in 2016 (which have resulted in a book-to-bill ratio of 1.2 as of August 31, 2016).

With our projected revenue mix, gross margins should remain at 62%. We project employee benefits of $1.2 million, in line with 2016. We project general and administrative expenses to increase to $1.1 million in 2017 from $1 million in 2016 due primarily to increased compensation costs. The company should only pay minimal taxes due to its large amount of net operating loss carryforwards.

We project $2.9 million cash from operations from $3.4 million cash earnings and a $508,000 increase in working capital. The increase in working capital will come primarily from increases in accounts receivable and inventory. Cash from operations should more than offset our projected $1 million in capital expenditures increasing cash by $1.9 million to $3.5 million at December 31, 2017.

Risks

In our view, these are the principal risks underlying the stock.

Market cycle risks – Omni-Lite's revenues are dependent on various markets such as the aerospace, specialty automotive, and defense sectors that may experience cyclical changes in demand.

Competition - Improvements in materials and processing methods developed by competitors may provide other companies with a greater competitive edge.

Economic factors - The company's business and operating performance is subject to economic forces beyond its control, such as changes in consumer preferences, spending patterns, and general economic downturns.

Foreign currency risk - A significant portion of Omni-Lite's operations are located outside of the United States and are subject to fluctuations in exchange rates. Omni-Lite operates with a US dollar functional currency which gives rise to currency exchange rate risk.

Product development – Many of the company's products are complex and require a long development time before entering the production phase. Typical lead times range from four months to eighteen months depending on the complexity of the component. These long lead times may delay the profitability of the project.

Liquidity risk - Shares of Omni-Lite have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 8.6 million shares in the float and the average daily volume is approximately 4,400 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2013A	2014A	2015A	3Q16A	2016E	2017E
Cash	1,925	1,687	1,052	535	1,619	3,524
Accounts receivable	1,034	759	1,412	1,814	1,513	1,746
Inventory	2,456	2,380	2,516	2,693	2,291	2,615
Income taxes receivable	41	40	37	42	42	42
Current portion of due from related parties	18	7	4	22	22	22
Prepaid expenses	133	142	143	133	133	133
Total current assets	5,607	5,015	5,164	5,239	5,620	8,082
Investment	275	437	203	304	304	304
Equipment deposits	-	441	-	60	-	-
Property, plant and equipment	13,612	13,174	14,232	14,017	14,204	14,180
Due from related parties	1,591	1,450	1,477	1,447	1,447	1,447
Deferred tax asset	1,251	1,330	908	907	907	907
Total assets	**22,336**	**21,847**	**21,984**	**21,974**	**22,482**	**24,920**
Accounts payable and accrued liabilities	541	415	376	439	342	391
Eqipment payable	-	-	188	-		
Income taxes payable	2	1	-	-	-	-
Current portion of long-term debt	300	-	-	-	-	-
Total current liabilities	843	416	564	439	342	391
Deferred tax liability	3,535	3,316	3,068	2,948	2,948	2,948
Total liabilities	**4,378**	**3,732**	**3,632**	**3,387**	**3,290**	**3,339**
Total stockholders' equity*	**17,958**	**18,115**	**18,352**	**18,587**	**19,192**	**21,581**
Total liabilities & stockholders' equity	**22,336**	**21,847**	**21,984**	**21,974**	**22,482**	**24,920**

*2016 includes $100,000 of available-for-sale assets
Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	2013A	2014A	2015A	2016E	2017E
Revenue	5,301	5,850	7,480	8,017	9,250
Cost of goods sold	2,389	2,636	3,382	3,080	3,515
Gross profit	2,912	3,214	4,098	4,937	5,735
Employee benefits	939	1,077	1,097	1,194	1,200
General and administrative	854	838	905	1,028	1,100
Depreciation	967	972	983	1,027	1,024
Other operating expenses	238	118	137	191	200
Income (loss) from operations	(86)	209	976	1,497	2,211
Interest income	19	29	30	28	28
Other income (loss)	-	(56)	65	-	-
Income (loss) before income taxes	(67)	182	1,071	1,525	2,239
Income tax (benefit)	(205)	(287)	186	(112)	-
Net income	138	469	885	1,637	2,239
EPS	0.01	0.04	0.07	0.14	0.20
Shares Outstanding	12,303	12,149	12,028	11,504	11,390
Margin Analysis					
Gross margin	54.9%	54.9%	54.8%	61.6%	62.0%
Operating margin	(1.6)%	3.6%	13.0%	18.7%	23.9%
Net margin	2.6%	8.0%	11.8%	20.4%	24.2%
Year / Year Growth					
Total Revenues		10.4%	27.9%	7.2%	15.4%
Net Income		239.9%	88.7%	85.0%	36.8%
EPS		244.2%	90.6%	93.4%	38.1%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement 2015A to 2017E
(in thousands $)

	3/15A	6/15A	9/15A	12/15A	2015A	3/16A	6/16A	9/16A	12/16E	2016E	3/17E	6/17E	9/17E	12/17E	2017E
Revenue	1,773	2,241	2,003	1,463	7,480	1,484	2,110	2,173	2,250	8,017	2,100	2,400	2,500	2,250	9,250
Cost of goods sold	743	891	787	961	3,382	593	910	722	855	3,080	798	912	950	855	3,515
Gross profit	1,030	1,350	1,216	502	4,098	891	1,200	1,451	1,395	4,937	1,302	1,488	1,550	1,395	5,735
Employee benefits	299	291	309	198	1,097	290	272	332	300	1,194	300	300	300	300	1,200
General and administrative	202	219	261	223	905	258	320	200	250	1,028	275	275	275	275	1,100
Depreciation	244	247	249	243	983	268	254	254	251	1,027	256	256	256	256	1,024
Other operating expenses	23	26	29	59	137	42	49	50	50	191	50	50	50	50	200
Income (loss) from operations	262	567	368	(221)	976	33	305	615	544	1,497	421	607	669	514	2,211
Interest income	7	7	9	7	30	7	7	7	7	28	7	7	7	7	28
Other income (loss)	-	-	-	65	65	-	-	-	-	-	-	-	-	-	-
Income (loss) before income taxes	269	574	377	(149)	1,071	40	312	622	551	1,525	428	614	676	521	2,239
Income tax (benefit)	(43)	7	7	215	186	(130)	(99)	117	-	(112)	-	-	-	-	-
Net income	312	567	370	3	885	170	411	505	551	1,637	428	614	676	521	2,239
EPS	0.03	0.05	0.03	0.00	0.07	0.02	0.04	0.04	0.05	0.14	0.04	0.05	0.06	0.05	0.20
Shares Outstanding	11,995	12,546	12,132	12,028	12,028	11,633	11,384	11,608	11,390	11,504	11,390	11,390	11,390	11,390	11,390
Margin Analysis															
Gross margin	58.1%	60.2%	60.7%	34.3%	54.8%	60.0%	56.9%	66.8%	62.0%	61.6%	62.0%	62.0%	62.0%	62.0%	62.0%
Operating margin	14.8%	25.3%	18.4%	(15.1)%	13.0%	2.2%	14.5%	28.3%	24.2%	18.7%	20.0%	25.3%	26.8%	22.8%	23.9%
Net margin	17.6%	25.3%	18.5%	0.2%	11.8%	11.5%	19.5%	23.2%	24.5%	20.4%	20.4%	25.6%	27.0%	23.2%	24.2%
Year / Year Growth															
Total Revenues	29.1%	23.9%	23.0%	40.8%	27.9%	(16.3)%	(5.8)%	8.5%	53.8%	7.2%	41.5%	13.7%	15.0%	0.0%	15.4%
Net Income	625.6%	116.4%	51.0%	103.7%	88.7%	(45.5)%	(27.5)%	36.5%	NMF	85.0%	151.8%	49.4%	33.9%	(5.4)%	36.8%
EPS	160.1%	110.2%	50.6%	103.7%	90.6%	(23.1)%	(20.1)%	42.6%	NMF	93.4%	87.9%	49.3%	36.4%	(5.4)%	38.1%

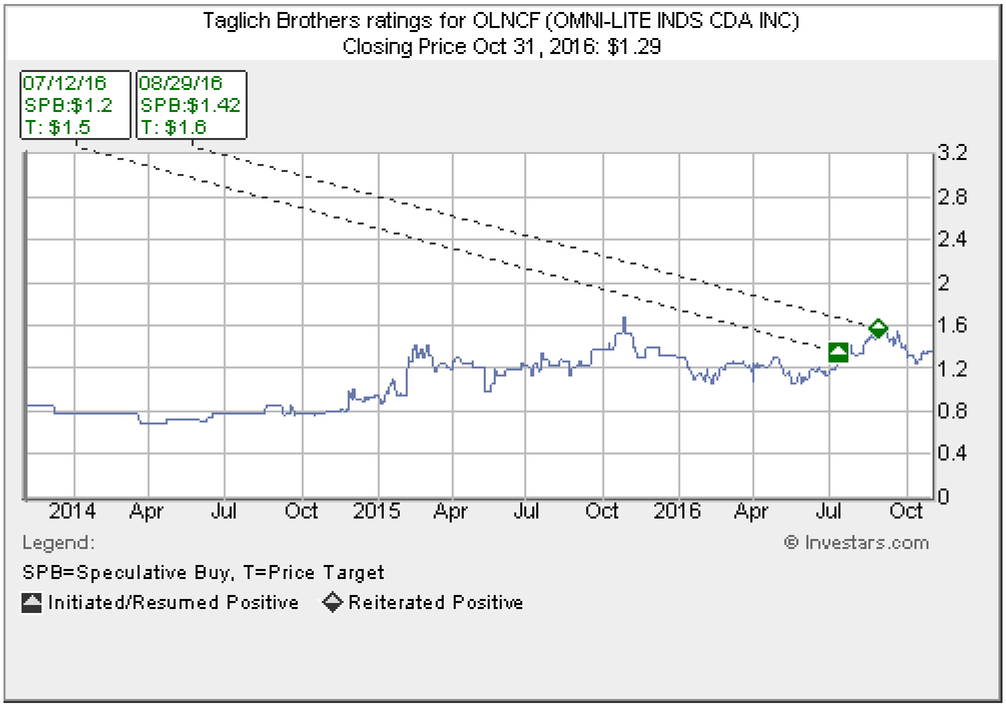
Source: Company filings and Taglich Brothers' estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)

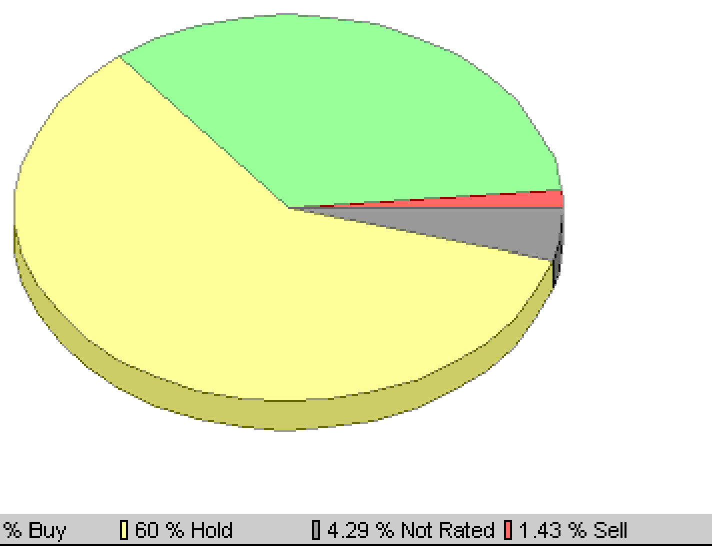
	2013A	2014A	2015A	9m16A	2016E	2017E
Net income (loss)	138	469	885	1,086	1,637	2,239
Depreciation	967	972	983	775	1,027	1,024
Deferred taxes	(215)	(297)	175	(120)	(230)	-
Loss on sale of equipment	-	57	-	-	-	-
Bad debt	-	20	5	-	-	-
Share-based compensation	99	49	88	114	150	150
Cash earnings (loss)	989	1,270	2,136	1,855	2,584	3,413
Changes in assets and liabilities						
Accounts receivable	(322)	275	(653)	(402)	(101)	(233)
Income taxes receivable	-	-	3	(5)	(5)	-
Inventory	(90)	76	(135)	(177)	225	(324)
Prepaid expenses	(35)	(9)	(2)	10	10	-
Accounts payable and accrued liabilities	243	(126)	(38)	62	(34)	48
Income taxes payable	(3)	(1)	(1)	-	-	-
(Increase) decrease in working capital	(207)	215	(826)	(512)	95	(508)
Net cash provided by (used in) operations	**782**	**1,485**	**1,310**	**1,343**	**2,679**	**2,905**
Deposits on equipment	-	(441)	-	(60)	(60)	-
Proceeds from sale of equipment	-	263	-	-	-	-
Purchase of available for sale financial asset	-	(91)	-	-	-	-
Purchase of property, plant and equipment	(770)	(854)	(1,412)	(748)	(1,000)	(1,000)
Net cash provided by (used in) investing	**(770)**	**(1,123)**	**(1,412)**	**(808)**	**(1,060)**	**(1,000)**
Payments from related parties	737	250	26	24	24	-
Advances to related parties	(898)	(118)	(56)	(11)	(11)	-
Repayment of long-term debt	(624)	(300)	-	-	-	-
Relinquishment of options	-	-	-	(18)	(18)	-
Share issue costs	(1)	(1)	(3)	-	-	-
Proceeds from exercise of stock options	-	-	185	-	-	-
Issue of common shares	-	-	-	49	49	-
Repurchase of common shares	(47)	(431)	(685)	(1,096)	(1,096)	-
Net cash provided by (used in) financing	**(833)**	**(600)**	**(533)**	**(1,052)**	**(1,052)**	**-**
Net change in cash	**(821)**	**(238)**	**(635)**	**(516)**	**567**	**1,905**
Cash - beginning of period	**2,746**	**1,925**	**1,687**	**1,051**	**1,052**	**1,619**
Cash - end of period	**1,925**	**1,687**	**1,052**	**535**	**1,619**	**3,524**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	**3**	**12**
Hold		
Sell		
Not Rated		

Important Disclosures

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

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Nike Inc. (NYSE: NKE)
NN, Inc. (NASDAQ: NNBR)
RBC Bearings, Inc. (NASDAQ: ROLL)
SIFCO Industries, Inc. (NYSE: SIF)
TriMas Corporation (NASDAQ: TRS)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.