



**Omni-Lite Industries Canada Inc.
Unaudited Condensed Consolidated Financial Statements
For the interim three months ended March 31, 2022, and 2021
(in United States Dollars)**

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UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the three months ended March 31, 2022, and 2021.

NOTICE TO THE READER OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements of Omni-Lite Industries Canada Inc. including the consolidated statements of financial position as at March 31, 2022 and 2021 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the three months ended March 31, 2022 and 2021 are the responsibility of the Company's management.

These unaudited condensed consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MNP LLP.

The unaudited condensed consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these unaudited condensed consolidated financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

"David Robbins" signed

David Robbins
Director and Chief Executive Officer
Cerritos, California, USA
May 25, 2022

"Roger Dent" signed

Roger Dent
Director
Cerritos, California, USA
May 25, 2022

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Consolidated Statements of Financial Position

	Note	03/31/22	12/31/21
Assets			
Current			
Cash		\$ 3,174,507	\$ 2,418,301
Accounts receivable		1,691,002	2,352,189
Other receivables		-	309,562
Inventory	4	4,156,184	4,011,233
Prepaid expenses		121,833	234,530
Total Current Assets		\$ 9,143,526	\$ 9,325,815
Long-term			
Investment	5	480,551	426,288
Property, plant and equipment	6	12,066,086	12,064,111
Due from related parties	8	11,000	14,000
Deferred tax asset		58,913	-
Intangible assets	7	1,276,732	1,296,177
Deposits		39,369	32,256
Total Assets		\$ 23,076,178	\$ 23,158,647
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 1,254,551	\$ 1,889,564
Lease liability	10	324,899	239,445
Income taxes payable		501,482	493,521
Total Current Liabilities		\$ 2,080,932	2,622,530
Long Term			
Lease liability	10	6,308,330	6,297,811
LONG TERM Deferred tax liability		58,277	61,082
Total Liabilities		\$ 8,447,539	8,981,423
Shareholders' Equity			
Share capital	11	11,252,443	10,266,560
Contributed surplus	12	2,118,743	2,083,436
Retained earnings		1,040,086	1,742,927
Accumulated other comprehensive income (loss)	5	217,367	84,301
Total Shareholders' Equity		\$ 14,628,639	\$ 14,177,224
Total Liabilities and Shareholder's Equity		\$ 23,076,178	\$ 23,158,647

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the 3 months ended March 31	Note	2022	2021
Revenue		\$ 2,380,127	\$ 1,269,719
Cost of goods sold	4	2,379,301	1,237,272
Gross margin		\$ 826	\$ 32,447
Overhead expenses			
Selling, general and administrative		526,811	324,659
Share-based compensation	11	35,307	12,350
Amortization of intangible assets	7	30,425	18,667
Total overhead expenses		592,543	355,676
Research and product design		23,232	49,800
Income/(Loss) from operations		\$ (614,949)	\$ (373,029)
Other income (expense)			
Interest income		2,656	2,656
Interest expense	9	(144,305)	(20,637)
Gain on sale land / building		-	-
Other Expense		-	-
Other income		-	10,819
Loss before income taxes		\$ (756,598)	\$ (380,191)
Income tax expense (recovery)			
Current		7,961	9,078
Deferred		(61,718)	(35,408)
		(53,757)	(26,330)
Net loss		\$ (702,841)	\$ (353,861)
Other comprehensive income/(loss)			
Translation of foreign subsidiary		152,826	
Gain (Loss) on investment	5	64,541	196,825
Comprehensive loss		\$ (638,300)	\$ (157,036)
Loss per share			
- basic	11	(0.05)	(0.03)
- diluted	11	(0.05)	(0.03)
Weighted average shares outstanding			
- basic	11	15,045,897	11,333,854
- diluted	11	15,045,897	11,333,854

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Consolidated Statements of Changes in Shareholders' Equity

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income/(loss)	Stockholder's Equity
Balance at December 31, 2020		\$ 8,204,897	\$ 1,961,473	\$2,226,024	\$ 55,709	\$ 12,448,103
Share-based compensation	11	-	12,350	-	-	12,350
Net loss		-	-	(353,861)	-	(353,861)
Gain on investment	5	-	-	-	196,826	196,826
Balance at March 31, 2021		\$ 8,204,897	\$ 1,973,824	\$1,872,163	\$ 252,535	\$ 12,303,418

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income/(loss)	Stockholder's Equity
Balance at December 31, 2021		\$10,266,560	\$ 2,083,436	\$1,742,927	\$ 84,301	\$ 14,177,224
Share-based compensation	11	-	35,307	-	-	35,307
Net loss		-	-	(702,841)	-	(702,841)
Loss on investment	5	-	-	-	54,264	54,264
Cumulative translation adjustment					78,802	78,802
Share Issuance	11	985,883				985,883
Balance at March 31, 2022		\$11,252,443	\$ 2,118,743	\$1,040,086	\$ 217,367	\$ 14,628,639

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Cash Flows

For the three months ended March 31	Note	2022	2021
Cash flows from operating activities			
Net loss for the period		\$ (702,841)	\$ (353,861)
Adjustments for:			
Depreciation	6	291,264	247,907
Inventory reserve		(55,323)	
Allowance for bad debt (reversal)			(1,800)
Amortization of intangible assets	7	30,425	18,667
Deferred tax (recovery) expense		(56,744)	(34,913)
Share-based compensation	11	35,307	12,350
Lease interest expense	9	144,305	7,367
		\$ (313,607)	\$ (104,284)
Net change in non-cash working capital items			
Accounts receivable		661,187	121,783
Other receivables		309,562	
Inventory		(89,629)	(17,448)
Prepaid expenses		112,697	26,196
Accounts payable and accrued liabilities		(640,407)	(162,483)
Deposits		(7,112)	-
Income taxes payable		7,961	9,078
Increase/(Decrease) in cash from operating activities		\$ 40,652	\$ (127,157)
Cash flows from financing activities			
Proceeds from Paycheck Protection Loan	9	-	399,587
Employee Receivables		3,000	3,000
Repayment of lease liability	10	(173,049)	(58,121)
Increase/(Decrease) in cash from financing activities		\$ (170,049)	\$ (58,121)
Cash flow from investing activities			
Acquisition of subsidiary net of cash acquired			3,180
Sale of equipment			(2,500)
Purchase of property, plant and equipment	6	(224,092)	(2,500)
Shares sold in private placement		985,883	
Decrease in cash from investing activities		\$ 761,790	\$ 680
Currency translation		26,585	-
Increase in cash		\$ 658,978	\$ (184,598)
Cash, beginning of period		\$ 2,418,301	\$ 1,542,405
Cash, end of period		\$ 3,174,507	\$ 1,760,395

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. Nature of Operations

Omni-Lite Industries Canada Inc. (“Omni-Lite” or the “Company”) was incorporated under the Laws of the Business Corporations Act of Alberta in 1992. The consolidated financial statements of the Company for the three months ended March 31, 2022, include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements were authorized for issue by the Board of Directors on May 25, 2022, Its head office, research and development, and production operations are located at 17210 Edwards Road, Cerritos, California, U.S.A, 90703. A corporate, registered office is located at 18 Kings Street East, Suite 902, Toronto, ON M5C2C4. The Company’s core mission is the adaptation of material science for mission critical applications. These products include components for the aerospace, military, specialty automotive and sports and recreational industries. Since the most significant portion of the Company’s operations is located in the United States (“U.S.”) and its functional currency is U.S. dollars, these consolidated financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

Impact of the COVID-19 Pandemic

The ongoing COVID-19 pandemic (“pandemic”) has caused and may continue to cause governments and businesses around the world to take steps to combat the spread and adverse effects of COVID-19 virus and its variants. Such actions include the implementation of travel bans, stay at home orders, social distancing, quarantines, limits on business activity and other disruptive measures. These actions have resulted in and may continue to result in an economic slowdown. Governments have responded with significant monetary interventions designed to support and stabilize the adverse effects of the pandemic on individuals and businesses.

The pandemic has significantly adversely affected the Company’s operations in 2022. The full extent of the effects of the pandemic on the Company’s future operations continues to be unknown at this time and is dependent on the duration of the pandemic and future government and customer actions. In response to this uncertainty, the Company has fully availed itself of Paycheck Protection Program, completed a workforce reduction program and implemented other cost saving measures to preserve cash.

2. Significant Accounting Policies

These condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee (“IFRIC”) in effect at March 31, 2022.

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2. Significant Accounting Policies (continued)

These condensed consolidated financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting.

The significant accounting policies of the Company are the same as those applied in the Company's annual audited consolidated financial statements for the years ended December 31, 2021, and 2020. These policies have been consistently applied to each of the periods presented.

a) Estimates and Judgements

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

3. Business Combination

On December 20, 2021, the Company acquired 100% of the issued and outstanding shares of Designed Precision Castings, Inc. ("DP Cast") in exchange for 3,078,710 shares valued at \$2,061,663. In addition, the Company paid \$2,952,498 of bank indebtedness, \$332,865 in cash and \$174,468 related to a working capital adjustment. The working capital adjustment was recorded in accounts payable at December 31, 2021 and was settled subsequent to year end. DP Cast designs and manufactures investment castings for aerospace, defense, oil and gas and other commercial applications.

The primary reason for the acquisition of DP Cast was due to its growth potential.

The Company has made a determination of the fair value of the tangible and intangible assets acquired and liabilities assumed in the acquisition.

The total purchase price and fair value of assets and liabilities acquired is as follows:

Consideration paid:		
Cash paid for bank indebtedness	\$	2,952,498
Cash paid		332,865
Working capital adjustment		174,468
Shares issued		2,061,663
Total consideration paid	\$	5,521,494
Assets (liabilities) assumed		
Cash	\$	1,378

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3. Business combination (continued)

Accounts receivable	1,175,458
Other receivables	305,514
Inventory	1,246,510
Prepaid expenses and other assets	43,505
Property, plant and equipment	2,405,418
Right of use assets	2,430,986
Customer relationships	264,674
Goodwill	496,808
Accounts payable and accrued liabilities	(984,929)
Lease liabilities	(1,863,828)
Fair value of net assets	\$ 5,521,494

The goodwill was attributable mainly to the expected synergies and future income and growth expected to be achieved from integrating DP Cast into the Company's existing business. The goodwill recognized on the acquisition is not deductible for tax purposes.

The purchase price allocation included an inventory fair value adjustment of \$369,729. At the acquisition date, the fair value of the acquired receivables approximated the carrying value and there was no provision for expected credit losses.

The fair value of the customer relationships was determined using a discounted cash flow analysis. The key assumptions used in the cash flow projection include: (1) a discount rate of 39%; (2) average revenue growth rate of 18%; (3) customer growth rate of 15%; and terminal revenue growth rate of 3% per year.

Transaction costs included in the consolidated statements of loss and comprehensive income loss were approximately \$404,275. Cypress Associates, LLC ("Cypress") served as investment advisor for the purchase of DP Cast. A board member of the Company is a principle in Cypress. Cypress received \$125,000 and 200,000 stock warrants valued at \$77,206 using the Black-Scholes method. The warrants have an exercise price of CAD\$0.95, are exercisable immediately and have a five-year life (note 11).

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4. Inventory

The major components of inventory are classified as follows:

The cost of inventories recognized as expense and included in cost of goods sold for the three months ended March 31, 2022, was \$2,379,301 (2021 - \$1,237,272).

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Raw Materials	659,673	569,651
Tooling	535,202	497,328
Work in Progress	1,063,659	1,161,579
Finished Goods	1,897,649	1,782,675
Total	\$ 4,156,184	\$ 4,011,233

5. Investment

At March 31, 2022, the long-term investment consists of an equity investment in the common shares of California Nanotechnologies Corp. ("California Nano"), a public company related through a common director. The Company's investment is recorded at the fair value as supported by the market price listed on the TSX Venture Exchange.

	<u>Carrying Amount</u>
Investment at December 31, 2020	\$ 471,720
Loss from market price valuation	(45,432)
Investment at December, 2021	\$ 426,288
Gain from market price valuation	54,264
Investment at March 31, 2022	\$ 480,551

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6. Property, Plant and Equipment

	Land	Building	Production Equipment	Other Equipment	Non-Consumable Tooling	Right-of- Use Assets	Totals
Cost							
At December 31, 2020	\$770,000	\$2,158,925	\$15,831,933	\$360,459	\$7,886,562	\$ 505,310	\$27,513,189
Additions	-	-	83,321	-	-	2,161,673	2,244,994
Acquisition of subsidiary (note 3)			2,302,273	103,145		2,430,986	4,836,404
Sale of land and building	(770,000)	(2,154,572)					(2,924,573)
Retirements			(271,036)				(271,036)
Elimination on modifications						(505,310)	(505,310)
Reclassifications			163,499	(163,926)	427		
Currency translation			30,508	1,367		32,214	64,089
At December 31, 2021	\$ -	\$ 4,353	\$18,140,498	\$301,045	\$7,886,989	\$4,624,873	30,957,758
Additions	-	-	216,421	7,671	-		224,092
Currency translation			33,976	1,522		35,876	71,374
At March 31, 2022	\$ -	\$ 4,353	\$18,390,895	\$310,238	\$7,886,989	\$4,660,749	31,253,224
Accumulated depreciation							
At December 31, 2020	\$ -	\$904,258	\$10,435,282	\$306,633	\$7,687,475	\$422,117	\$19,755,765
Depreciation		54,903	366,856	13,066	196,331	144,179	775,335
Sale of land and building		(954,808)					(954,808)
Retirements			(236,515)				(236,515)
Elimination on modification						(446,331)	(446,331)
Reclassifications			131,511	(131,511)			-
Currency translation			83	8		110	201
At December 31, 2021	\$ -	\$ 4,353	\$10,697,217	\$188,196	\$7,883,806	\$120,075	\$18,893,647
Depreciation	-	-	153,724	6,528	440	132,655	293,347
Currency translation			104	9		31	144
At March 31, 2022	\$ -	\$4,353	\$10,851,045	\$194,733	7,884,246	\$252,761	\$19,187,138
Net Book Value							
At December 31, 2021	\$ -	\$ -	\$7,443,281	\$112,849	\$ 3,183	\$4,504,798	\$12,064,111
At March 31, 2022	\$ -	\$ -	\$7,539,850	\$115,505	\$2,743	\$4,407,988	\$12,066,086

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7. Intangible Assets

	Customer Relationships	Goodwill	Trademark	Non-Compete Agreements	Patents	Totals
Cost						
December 31, 2021	\$240,000	\$407,170	\$100,000	\$20,000	\$6,285	\$773,455
Acquisition (note 3)	264,674	496,808	-	-	-	761,482
Foreign currency translation	3,507	6,584	-	-	-	10,091
December 31, 2021	\$508,181	\$910,562	\$100,000	\$20,000	\$6,285	\$1,545,028
Foreign currency translation	3,906	7,332	-	-	-	11,238
March 31, 2022	\$512,087	\$917,894	\$100,000	\$20,000	\$6,285	\$1,556,266
Accumulated amortization						
December 31, 2020	\$110,000	\$ -	\$45,500	\$15,167	\$ -	\$170,667
Amortization	53,288	-	20,000	4,833	-	78,121
Foreign currency translation	63	-	-	-	-	63
December 31, 2021	\$163,351	\$ -	\$65,500	\$20,000	\$ -	\$248,851
Amortization	24,604	-	5,000	-	-	78,121
Foreign currency translation	78	-	-	-	-	78
March 31, 2022	\$189,033	\$ -	\$70,500	\$20,000	\$ -	\$279,533
Net book value						
December 31, 2021	\$344,830	\$910,562	\$34,500	\$ -	\$6,285	\$1,296,177
March 31, 2022	\$323,054	\$917,894	\$29,500	\$ -	\$6,285	\$1,276,732

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8. Related Party Transactions and Balances

During the three months ended March 31, 2022, the Company had the following related party transactions and balances not disclosed elsewhere in these condensed consolidated financial statements:

	March 31, 2022	December 31, 2021
California Nanotechnologies:		
i. A loan receivable including accrued interest in the amount of \$1,203,813 which is due on demand. Of this amount, \$1,194,346 accrues interest at 2.89% per annum. The loan was secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. This loan receivable is fully reserved.	\$ -	\$ -
ii. The Company has provided a guarantee on the bank debt held by California Nanotechnologies Corp. The bank debt consists of a term loan with a balance of approximately \$113,000 (\$143,000 at December 31, 2021).		
iii. On March 31, 2020, the bank called California Nano's line of credit of \$250,000, which was guaranteed by the Company. Omni-Lite repaid this amount on their behalf and has a loan receivable with interest at the prime rate plus 1% from California Nanotechnologies Corp. This amount has been fully reserved.		
Has an unsecured interest free loan receivable from an employee forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022.	20,000	20,000
Provided four grants (December 31, 2020– four) related to the purchases of hybrid/electric cars under the Company's <i>Greenhouse Gas Reduction Incentives for Employees</i> program in the amount of \$5,000 each. The two grants mature in 2023.	10,000	10,000
Reserve for earned grants	(19,000)	(16,000)
Total due from related parties	\$ 11,000	\$ 14,000
Current portion	-	-
Long-term portion	\$ 11,000	\$ 14,000

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8. Related Party Transactions and Balances (continued)

Significant Subsidiaries:

The table below provides information relative to the Company's significant subsidiaries, including each such entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by the Company, a brief description of the entity, and the market areas served, if applicable. The functional currency of each entity is U.S. Dollars.

Company (Jurisdiction of Incorporation/ Formation)	Percentage of ownership by Omni-Lite Industries Canada, Inc.	Overview	Market Area
Omni-Lite Industries California, Inc. (California, USA)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada, Inc., which was formed and incorporated on October 4, 1985. It is the head office which conducts research and development, and production operations.	United States
Monzite Corporation (New Hampshire, USA)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada, Inc., which was acquired on September 21, 2018. It is a holding company for Impellimax, Inc.	United States
Impellimax, Inc. (New Hampshire, USA)	100%	Wholly owned subsidiary of Monzite Corporation, which was acquired on September 21, 2018. It designs, manufactures, and contract manufactures electronic subcomponents.	United States
Designed Precision Castings Inc. (Ontario, Canada)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada Inc, which was acquired on December 20, 2021. It designs, and contract manufactures investment castings.	United States, Canada
Marvel Acquisition Co. Ltd. (Ontario, Canada)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada Inc. which is a dormant entity.	Canada

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9. Bank Indebtedness

The Company has a three-year, \$3.0 million revolving credit line with City National Bank, an RBC Company, which expires on December 31, 2022 (the "Credit Agreement"). Interest under the revolving line of credit accrues at the prime rate. The Credit Agreement is secured by the Company's accounts receivable, inventory, property, plant and equipment, and general intangibles. The agreement includes certain conditions and financial covenant ratios including, loan to value, net worth and debt service. In December 2021 the Company sold land and building which served as collateral for the line of credit. The Company paid off the full line of credit balance as part of the sale of the land and building. At December 31, 2021, the loan balance was zero. At March 31, 2022, the loan balance was \$nil (December 31, 2021 - \$nil). Interest expense of \$nil (2021 - \$13,270) related to the Company's line of credit line has been recorded in the consolidated statements of loss and comprehensive loss for the three months ended March 31, 2022. In addition, the Company recorded \$144,305 (2021 - \$7,367) of lease interest expense.

In the first quarter of 2021, the Company applied for and received \$399,587 of funding under the Paycheck Protection 2 Program. In the fourth quarter of 2021 the company was notified by the Small Business Administration that this loan had been forgiven. As such it was recorded as other income in the fourth quarter of 2021.

10. Lease Liability

	March 31, 2022	December 31, 2021
Opening Balance January 1	\$ 6,537,256	\$ 90,535
Modifications	-	595,759
Additions	97,229	4,054,465
Acquired through DP Cast acquisition (note3)	-	1,863,828
Payments	173,049	159,4300
Interest	144,305	67,440
Currency translation	27,488	24,659
Lease liability end of period	\$ 6,633,229	\$ 6,537,256
Less current portion	324,899	239,445
Long term portion	\$ 6,308,330	\$ 6,297,811

In the first quarter of 2022 the Company entered into a lease to purchase equipment in the amount of \$97,229. The discount rate applied to this lease was 7.4% which was the discount rate implied in the lease terms. During 2021, the leases for a warehouse in California and the manufacturing office in New Hampshire were amended and extended for an additional five-year period. The lease amendments were considered lease modifications, with the remeasured lease liability and associated right of use asset balances each increasing by \$595,759.

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10. Lease Liability (continued)

In December 2021, the Company sold its building located in Cerritos California in a sale leaseback transaction. The lease is for a period of 10 years with a 10-year renewal option. The Company recognized a lease liability of \$4,054,405 and a gain on sale of \$1,767,177. The Company prepaid \$292,631 of rent payments which have been excluded in the measurement of the lease liability. The proceeds were used to repay the Company's bank indebtedness and for the acquisition of DP Cast.

The Company has entered into leases for its manufacturing and office space as follows:

Location	Type	Liability	Expires	Entered/ Renewed
Cerritos, California	Manufacturing and office	\$ 4,093,328	December 2031 with a 10-year extension option which management expects to exercise	Entered December 2021
Cerritos, California	Warehouse	313,531	June 2026	Renewed June 2021
Brampton, Ontario	Manufacturing and office	1,899,046	December 2026 with a 5-year extension option which management expects to exercise	Entered December 2021
Nashua, New Hampshire	Manufacturing and office	235,809	March 2026	Renewed March 2021
Brampton, Ontario	Equipment purchase	91,515	February 2026	Entered February 2022
		\$ 6,633,229		

The incremental borrowing rate used to calculate the lease liabilities was 9%. Additionally, the Company is responsible for all building operating costs including real estate taxes and insurance. The total estimated annual amount of real estate taxes and insurance included in the financial statements is approximately \$219,235 document (2021 - \$22,000). These costs are recorded in cost of sales.

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10. Lease Liability (continued)

	California	Nashua	Ontario	Total
Real Estate Taxes	137,066		46,016	183,081
Building Insurance	6,327			6,327
Total Common Area		22,000	7,826	29,826
	<u>143,393</u>	<u>22,000</u>	<u>53,842</u>	<u>219,235</u>

Future minimum lease payments are as follows:

2022	\$ 634,503
2023	890,257
2024	890,046
2025	902,591
2026	785,787
2027-2031	<u>3,493,750</u>
Total	\$7,596,934

11. Share Capital

a) Authorized: Unlimited number of common shares with no par value

b) Issued:

	Number of Shares	Amount
Total issued and outstanding December 31, 2019, December 31, 2020,	11,333,854	\$ 8,204,897
Issued for acquisition (note 3)	3,078,710	2,061,663
Issued and outstanding December 31, 2021	14,412,564	<u>\$10,266,560</u>
Issued for private placement	1,000,000	985,883
Issued and outstanding March 31, 2022	<u>15,412,564</u>	\$11,252,443

In February 2022, the company issued 1,000,000 shares in a private placement at a value of CAD\$ 1.25 per share.

c) Share Options:

The Company established a share option plan for employees, directors and consultants on September 15, 1997. Under this plan, the Company is authorized to issue options up to 10% of the outstanding number of issued and outstanding shares. From grant date, options vest at one-third of the total grant annually with an expiration term of 5 years.

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11. Share Capital (continued)

The Company has granted share options to directors, consultants, and employees of the Company as follows:

	Number	Option Price per Share Range	Weighted Average Exercise Price
Option outstanding at December 31, 2020	802,667	CAD \$0.90 to \$1.85	CAD \$1.10
Options – expired	(146,667)	CAD \$1.40 to \$1.47	CAD \$1.48
Options - granted	390,000	CAD \$0.76 to \$0.92	CAD \$0.88
Options outstanding at December 31, 2021 and March 31, 2022	1,046,000	CAD \$0.76 to \$1.85	CAD \$0.97
Options exercisable at March 31, 2022	464,328	CAD \$0.90 to \$1.85	CAD \$1.07

The Company did not grant options during the three months ended March 31, 2022.

The options that are outstanding at March 31, 2022 are summarized as follows:

Options Outstanding	Option Price	Weighted Average Exercise Price of Options Outstanding	Weighted Average Remaining Contractual Life
90,000	CAD \$0.76	CAD \$0.76	4.44 years
875,000	CAD \$0.90-\$0.92	CAD \$0.91	3.37 years
81,000	CAD \$1.85	CAD \$1.85	0.20 years
1,046,000	CAD \$0.76-1.85	CAD \$0.97	3.21 years

Options Vested	Option Price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
383,328	CAD \$0.90	CAD \$0.90	2.66
81,000	CAD \$1.85	CAD \$1.85	.20
464,328	CAD \$0.90-\$1.85	CAD \$1.07	2.23

In estimating expected stock price volatility at the time of a particular share option grant, the Company relies on observations of historical volatility trends. Share-based compensation expense in relation to the options for the three months ended March 31, 2022, was \$20,557 (2021-\$8,599). The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions

Risk-free interest rate	1.45%
Expected life (years)	5
Volatility rate (%)	60.61%
Dividend yield (%)	0.00%
Forfeiture rate (%)	0.00%

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11. Share Capital (continued)

Warrants:

The Company initiated a long-term stock warrant plan in the third quarter of 2018 for key management and employees. The stock warrant plan is monitored by the Board of Directors who determine the strike price and vesting terms of warrants issued.

	Number	Warrant Price Per Share Range	Weighted Average Exercise Price
Warrants outstanding at December 31, 2019, December 31, 2020	1,200,000	CAD \$1.27 to \$2.26	CAD \$1.67
Warrants granted 2021	200,000	CAD \$0.95	CAD \$0.95
Total warrants outstanding December 31, 2021 and March 31, 2022	1,400,000	CAD \$0.95 to \$2.26	CAD \$1.59
Warrants exercisable at March 31, 2022	492,500	CAD \$0.95 to \$1.55	CAD\$1.16

The warrants that are outstanding as of March 31, 2022 are summarized as follows:

Warrants Outstanding	Warrant Exercise Price	Weighted Average Remaining Life
200,000	CAD \$0.95	4.73 years
200,000	CAD \$1.27	4.48 years
125,000	CAD \$1.27	4.48 years
175,000	CAD \$1.41	4.48 years
200,000	CAD \$1.55	4.48 years
250,000	CAD \$1.98	4.48 years
250,000	CAD \$2.26	4.48 years
1,400,000	CAD \$1.59	4.52 years

On December 20, 2021, the company granted 200,000 stock warrants to Cypress for advisory services in connection with the acquisition of DP Cast. The warrants vested immediately, had a fair value of \$77,206 and were fully expensed in 2021 and expire on December 20, 2026. The fair value of the warrants granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Number of warrants	200,000
Weighted average exercise price	CAD \$0.95
Weighted average risk-free interest rate	1.17%
Weighted average expected life (years)	5
Weighted average volatility rate	64.00%
Weighted average dividend yield	0.00%
Weighted average forfeiture rate	0.00%

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11. Share Capital (continued)

700,000 of the warrants outstanding have exercise prices ranging from CAD \$1.27 – CAD \$2.26 and vest upon meeting escalating cumulative three-year EBITDA targets on dates ranging from December 31, 2021, to December 31, 2024. The Company has determined that the EBITDA targets are not expected to be met and, therefore, no expense has been recorded.

Total Share-based compensation expense recognized in relation to warrants was \$14,750 in the three months ended March 31, 2022 (2021 - \$3,751)

12. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	March 31, 2022	March 31, 2021
Balance, beginning of year	\$ 2,083,436	\$ 1,961,473
Share-based compensation (Note 10(c), (d))	35,307	12,351
Balance, end of period	\$2,118,743	\$ 1,973,824

13. Loss per Common Share

The basic (loss)income per common share is calculated using net (loss)income divided by the weighted-average number of common shares outstanding. The diluted (loss)income per common share is calculated using net (loss)income divided by the weighted-average number of diluted common shares outstanding, as adjusted with the treasury stock method.

1,046,000 options (2021 – 756,000) and 1,400,000 warrants (2021 – 1,200,00) were excluded in calculating the weighted-average number of diluted common shares outstanding for the three months ended March 31, 2022 and 2021 because the Company was in a net loss position for the three months ended March 31, 2022 and 2021.

14. Segment Information

The Company has its operations and subsidiaries in the United States and Canada. All sales are conducted in the United States.

	United States	Canada	Total
For the three months ended March 31, 2022			
Revenue	\$ 1,377,546	\$ 1,002,581	\$ 2,380,127
Net loss	(277,441)	(425,430)	(702,841)
Long term assets	6,455,740	7,476,911	13,932,651
 For the three months ended March 31, 2021			
Revenue	\$ 1,269,719	\$ -	\$ 1,269,719
Net loss	(283,072)	(70,876)	(353,948)
Long term assets	6,664,639	3,326,740	9,991,379

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15. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, due from related parties, investment, accounts payable and accrued liabilities, and bank indebtedness.

	March 31, 2022		December 31, 2021	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
At FVTPL				
Cash	\$ 3,174,507	\$ 3,174,507	\$ 2,418,301	\$ 2,418,301
At FVOCI				
Investment	480,551	480,551	426,288	426,288
At Amortized cost				
Accounts receivable	1,691,002	1,691,002	2,352,189	2,352,189
Due from related parties	11,000	11,000	14,000	14,000
Accounts payable and accrued liabilities	1,254,551	1,254,551	1,889,564	1,889,564

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash	\$ 3,174,507	\$ 3,174,507	\$ -	\$ -
Investment	480,551	480,551	-	-

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 finance guarantee liability approximate their fair value due to their short-term nature.

The carrying value of the Company's due from related parties approximate their fair values due to the amounts being due on demand, and the carrying value of bank indebtedness approximates fair value due to a market rate of interest being charged.

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations exposes 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.

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15. Financial Instruments (continued)

Interest Rate Risk

The Company has no borrowing and no interest rate risk at March 31, 2022 and December 31, 2021.

Foreign Currency Risk

The Company has foreign currency exposure through its DP Cast subsidiary which has a functional currency of Canadian dollars. The Company manages its foreign currency risk through natural hedges of its current asset and current liability positions where possible.

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 Nano. This investment is recorded on the consolidated statements of financial position at fair value as of the statement of financial position date with changes from the prior period's fair value reported in OCI. As at March 31, 2022, a 1% change in the price of the investment would have an impact of \$4,806 annually (December 31, 2021 - \$4,263).

Liquidity Risk

The Company had \$3,308,692 in cash on hand at March 31, 2022 and had no borrowing at March 31, 2022, or December 31, 2022. If the Company should need additional liquidity, it would pursue asset-based lending secured by its assets.

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

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
March 31, 2022					
Accounts payable and accrued liabilities	\$ 1,254,551	\$ -	\$ -	\$ -	\$ 1,254,551
December 31, 2021					
Accounts payable and accrued liabilities	\$ 1,889,564	\$ -	\$ -	\$ -	\$ 1,889,564

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15. Financial Instruments (continued)

Credit Risk

The Company manages credit risk over cash by maintaining its bank accounts with large financial institutions. The Company manages credit risk over accounts receivable by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the three months ended March 31, 2022, the Company had one customer who each accounted for in excess of 10% of revenue for approximately \$391,000 or 16% of sales (December 31, 2021 – two customers totaling \$2,415,000 million or 42% of sales) The maximum exposure to credit risk is the carrying value of cash, account receivable and due from related parties. The table below provides an analysis of the age of accounts receivable which are not considered impaired.

	Total	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days
March 31, 2022	\$ 1,691,002	\$ 1,074,449	\$ 312,380	\$ 205,117	\$ 99,056
December 31, 2021	\$ 2,352,189	\$ 1,541,341	\$ 602,853	\$ 119,117	\$ 88,878

16. 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 capital structure of the Company consists of cash and equity comprised of issued capital, contributed surplus and retained earnings. The Company generally relies on operating cash flows and its revolving line of credit to fund the expansion and product development. 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 to draw credit lines as required; and ensuring the Company maintains a credit rating that is appropriate for their circumstances.

The Company monitors the leverage in its capital structure by reviewing the ratio of net debt to cash flow from operating activities and interest coverage ratios.

17. Subsequent Events

None.