



**Omni-Lite Industries Canada Inc.  
Unaudited Condensed Consolidated Financial Statements  
For the interim three and six months ended June 30, 2022,  
and 2021  
(in United States Dollars)**

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**Unaudited**

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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 and six ended June 30, 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 at June 30, 2022 and 2021 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the three and six months ended June 30, 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  
August 16, 2022

*"Roger Dent" signed*

Roger Dent  
Director  
Cerritos, California, USA  
August 16, 2022

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**Consolidated Statements of Financial Position**

	Note	06/30/22	12/31/21
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 2,353,127	\$ 2,418,301
Accounts receivable		1,787,858	2,352,189
Other receivables		-	309,562
Inventory	4	3,972,733	4,011,233
Prepaid expenses		56,094	234,530
<b>Total Current Assets</b>		<b>\$ 8,169,813</b>	<b>\$ 9,325,815</b>
<b>Long-term</b>			
Investment	5	372,789	426,288
Property, plant and equipment	6	11,818,284	12,064,111
Due from related parties	8	8,000	14,000
Deferred tax asset		79,603	-
Intangible assets	7	1,230,338	1,296,177
Deposits		57,571	32,256
<b>Total Assets</b>		<b>\$ 21,736,399</b>	<b>\$ 23,158,647</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 1,208,207	\$ 1,889,565
Lease liability	10	328,506	239,445
Income taxes payable		47,707	493,521
<b>Total Current Liabilities</b>		<b>\$ 1,584,420</b>	<b>2,622,530</b>
<b>Long Term</b>			
Lease liability	10	6,186,647	6,297,811
Deferred tax liability		32,152	61,082
<b>Total Liabilities</b>		<b>\$ 7,803,219</b>	<b>8,981,423</b>
<b>Shareholders' Equity</b>			
Share capital	11	11,252,443	10,266,560
Contributed surplus	12	2,141,366	2,083,436
Retained earnings		559,688	1,742,927
Accumulated other comprehensive income (loss)		(20,316)	84,301
<b>Total Shareholders' Equity</b>		<b>\$ 13,933,180</b>	<b>\$ 14,177,224</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>\$ 21,736,399</b>	<b>\$ 23,158,647</b>

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 three and six months ended June 30	Note	For the six month period ended June 30, 2022	For the six month period ended June 30, 2021	For the three month period ended June 30, 2022	For the three month period ended June 30, 2021
<b>Revenue</b>		\$ 4,840,210	\$ 2,469,841	\$ 2,460,083	\$ 1,200,122
<b>Cost of goods sold</b>	4	4,826,408	2,491,335	2,447,107	1,254,064
<b>Gross margin</b>		<b>\$ 13,804</b>	<b>\$ (21,494)</b>	<b>\$ 12,977</b>	<b>\$ (53,942)</b>
<b>Overhead expenses</b>					
Selling, general and administrative		1,073,287	641,600	546,476	316,941
Share-based compensation	12	57,929	24,701	22,622	12,350
Amortization of intangible assets	7	60,385	37,333	29,961	18,667
Total overhead expenses		1,191,602	703,634	599,059	347,958
Research and product design		61,920	130,667	38,688	80,867
<b>(Loss)/Income from operations</b>		<b>\$ (1,239,718)</b>	<b>\$ (855,796)</b>	<b>\$ (624,770)</b>	<b>\$ (482,767)</b>
<b>Other income (expense)</b>					
Interest income		22,880	5,313	20,224	2,656
Interest expense	9	(289,033)	(47,603)	(144,728)	(26,966)
Gain on sale land / building		-	-	-	-
Other Expense		-	-	-	-
Other income		328,285	10,819	328,285	-
<b>Loss before income taxes</b>		<b>\$ (1,177,586)</b>	<b>\$ (887,267)</b>	<b>\$ (420,988)</b>	<b>\$ (507,077)</b>
<b>Income tax expense (recovery)</b>					
Current		47,707	9,894	39,746	816
Deferred		(42,054)	(95,550)	19,663	(60,143)
		5,654	(85,656)	59,410	(59,327)
<b>Net loss</b>		<b>\$ (1,183,239)</b>	<b>\$ (801,611)</b>	<b>\$ (480,398)</b>	<b>\$ (447,750)</b>
<b>Other comprehensive income/(loss)</b>					
Translation of foreign subsidiary		22,906		(129,920)	
(Loss) Gain on investment	5	(43,222)	(132,560)	(107,763)	(385,095)
<b>Comprehensive loss</b>		<b>\$ (1,203,556)</b>	<b>\$ (934,171)</b>	<b>\$ (718,082)</b>	<b>\$ (832,845)</b>
<b>Loss per share</b>					
- basic	13	(0.08)	(0.07)	(0.03)	(0.04)
- diluted	13	(0.08)	(0.07)	(0.03)	(0.04)
<b>Weighted average shares outstanding</b>					
- basic	13	15,412,564	11,333,854	15,412,564	11,333,854
- diluted	13	15,412,564	11,333,854	15,412,564	11,333,854

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

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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
<b>Balance at December 31, 2020</b>		\$ 8,204,897	\$ 1,961,473	\$ 2,226,024	\$ 55,709	\$ 12,448,103
Share-based compensation	11	-	24,701	-	-	24,701
Net loss		-	-	(801,611)	-	(801,611)
Gain on investment	5	-	-	-	(132,559)	(132,559)
<b>Balance at June 30, 2021</b>		<b>\$ 8,204,897</b>	<b>\$ 1,986,174</b>	<b>\$ 1,424,413</b>	<b>\$ (76,849)</b>	<b>\$ 11,538,635</b>

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated other comprehensive income/(loss)	Stockholder's Equity
<b>Balance at December 31, 2021</b>		\$ 10,266,560	\$ 2,083,436	\$ 1,742,927	\$ 84,301	\$ 14,177,224
Share-based compensation	11	-	57,929	-	-	57,929
Net loss		-	-	(1,183,239)	-	(1,183,239)
Gain on investment	5	-	-	-	(53,499)	(53,499)
Cumulative translation adjustment					(51,118)	(51,118)
Share Issuance	11	985,883				985,883
<b>Balance at June 30, 2022</b>		<b>\$ 11,252,443</b>	<b>\$ 2,141,366</b>	<b>\$ 559,688</b>	<b>\$ (20,316)</b>	<b>\$ 13,933,180</b>

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## Consolidated Statements of Cash Flows

For the three and six months ended June 30	Note	For the six month period ended June 30, 2022	For the six month period ended June 30, 2021	For the three month period ended June 30, 2022	For the three month period ended June 30, 2021
<b>Cash flows from operating activities</b>					
Net loss for the period		\$ (1,183,239)	\$ (801,611)	\$ (480,398)	\$ (447,750)
Adjustments for:					
Depreciation	6	578,248	483,388	286,984	233,138
Inventory reserve		(68,712)		(13,389)	
Allowance for bad debt (reversal)		-	(7,304)	-	(5,504)
Amortization of intangible assets	7	60,385	37,333	29,961	18,667
Deferred tax (recovery) expense		(108,534)	(95,056)	(46,816)	(60,142)
Share-based compensation	11	57,929	24,701	22,622	12,350
Lease interest expense	9	289,033	20,905	144,728	13,538
		<b>\$ (374,889)</b>	<b>\$ (337,644)</b>	<b>\$ (56,308)</b>	<b>\$ (235,703)</b>
Net change in non-cash working capital items					
Accounts receivable		564,331	230,603	(96,856)	108,820
Other receivables		309,562		0	
Inventory		107,211	(42,502)	196,840	(25,055)
Prepaid expenses		178,436	76,732	65,738	50,536
Accounts payable and accrued liabilities		(681,357)	(111,568)	(46,344)	50,916
Deposits		(25,314)	5,300	(18,202)	5,300
Income taxes payable		(445,814)	800	(453,775)	(8,278)
<b>(Decrease)/Increase in cash from operating activities</b>		<b>\$ (367,834)</b>	<b>\$ (178,279)</b>	<b>\$ (408,906)</b>	<b>\$ (53,464)</b>
<b>Cash flows from financing activities</b>					
Proceeds from Paycheck Protection Loan	9	-	399,587	-	
Employee Receivables		6,000	6,000	3,000	3,000
Lease liability borrowing	10	97,229	-	-	-
Repayment of lease liability	10	(394,275)	(91,586)	(221,226)	(33,466)
<b>Increase/(Decrease) in cash from financing activities</b>		<b>\$ (291,046)</b>	<b>\$ 314,001</b>	<b>\$ (218,226)</b>	<b>\$ (30,466)</b>
<b>Cash flow from investing activities</b>					
Acquisition of subsidiary net of cash acquired		-			
Sale of equipment		-	(1,905)		(2,743)
Purchase of property, plant and equipment	6	(370,360)	(42,500)	(146,268)	(40,000)
Shares sold in private placement		985,883			
<b>Increase/Decrease in cash from investing activities</b>		<b>\$ 615,523</b>	<b>\$ (44,405)</b>	<b>\$ (146,268)</b>	<b>\$ (42,743)</b>
<b>Currency translation</b>		<b>(21,816)</b>		<b>(47,979)</b>	
<b>Increase/(Decrease) in cash</b>		<b>\$ (65,173)</b>	<b>\$ 91,317</b>	<b>\$ (821,379)</b>	<b>\$ (126,673)</b>
<b>Cash, beginning of period</b>		<b>\$ 2,418,301</b>	<b>\$ 1,542,405</b>	<b>\$ 3,174,507</b>	<b>\$ 1,760,395</b>
<b>Cash, end of period</b>		<b>\$ 2,353,128</b>	<b>\$ 1,633,722</b>	<b>\$ 2,353,128</b>	<b>\$ 1,633,722</b>

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 and six months ended June 30, 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 August 16, 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 King 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 are 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 June 30, 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.

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 principal 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 June 30, 2022, was \$2,447,107 (2021 - \$1,254,064). The cost of inventories recognized as expense and included in cost of goods sold for the six months ended June 30, 2022, was \$4,826,408 (2021 - \$2,491,335).

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Raw Materials	461,340	569,651
Tooling	528,468	497,328
Work in Progress	1,230,502	1,161,579
Finished Goods	1,752,423	1,782,675
<b>Total</b>	<b>\$ 3,972,733</b>	<b>\$ 4,011,233</b>

#### 5. Investment

At June 30, 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, 2021	\$ 426,288
Gain/(Loss) from market price valuation	54,264
Investment at March 31, 2022	\$ 480,511
Gain/(Loss) from market price valuation	(107,763)
<b>Investment at June 30, 2022</b>	<b>372,789</b>

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## 6. Property, Plant and Equipment

	Land	Building	Production Equipment	Other Equipment	Non-Consumable Tooling	Right-of- Use Assets	Totals
<b>Cost</b>							
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
<b>At December 31, 2021</b>	<b>\$ -</b>	<b>\$ 4,353</b>	<b>\$18,140,498</b>	<b>\$301,045</b>	<b>\$7,886,989</b>	<b>\$4,624,873</b>	<b>30,957,758</b>
Additions	-	-	362,329	8,030	-		370,360
Currency translation			(17,885)	(709)		(16,724)	(35,318)
<b>At June 30, 2022</b>	<b>\$ -</b>	<b>\$ 4,353</b>	<b>\$18,484,942</b>	<b>\$308,366</b>	<b>\$7,886,989</b>	<b>\$4,608,149</b>	<b>31,292,799</b>
<b>Accumulated depreciation</b>							
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	-	-	302,798	15,477	880	260,829	579,984
Currency translation			1,297	1,111		(524)	1,884
<b>At June 30, 2022</b>	<b>\$ -</b>	<b>\$4,353</b>	<b>\$11,001,312</b>	<b>\$203,784</b>	<b>7,884,686</b>	<b>\$380,380</b>	<b>\$19,474,515</b>
<b>Net Book Value</b>							
At December 31, 2021	\$ -	\$ -	\$7,443,281	\$112,849	\$ 3,183	\$4,504,798	\$12,064,111
<b>At June 30, 2022</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$7,483,630</b>	<b>\$104,582</b>	<b>\$2,303</b>	<b>\$4,227,769</b>	<b>\$11,818,284</b>

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**7. Intangible Assets**

	Customer Relationships	Goodwill	Trademark	Non-Compete Agreements	Patents	Totals
<b>Cost</b>						
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	-1,821	-3,419	-	-	-	-5,240
June 30, 2022	\$506,360	\$907,143	\$100,000	\$20,000	\$6,285	\$1,539,788
<b>Accumulated amortization</b>						
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	50,922	-	10,000	-	-	57,157
Foreign currency translation	4,677	-	-	-	-	78
June 30, 2022	\$218,950	\$ -	\$70,500	\$20,000	\$ -	\$309,450
<b>Net book value</b>						
December 31, 2021	\$344,830	\$910,562	\$34,500	\$ -	\$6,285	\$1,296,177
June 30, 2022	\$287,410	\$907,143	\$29,500	\$ -	\$6,285	\$1,230,338

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## 8. Related Party Transactions and Balances

During the six months ended June 30, 2022, the Company had the following related party transactions and balances not disclosed elsewhere in these condensed consolidated financial statements:

	<b>June 30, 2022</b>	December 31, 2021
California Nanotechnologies:		
i. A loan receivable including accrued interest in the amount of \$1,217,091 which is due on demand. Of this amount, \$1,207,624 accrues interest at 7.5% 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 \$83,000 (\$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.	<b>20,000</b>	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.	<b>10,000</b>	10,000
Reserve for earned grants	<b>(22,000)</b>	(16,000)
Total due from related parties	<b>\$ 8,000</b>	\$ 14,000
Current portion	-	-
Long-term portion	<b>\$ 8,000</b>	\$ 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%	Indirectly 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
Monzite Holding Co. (Delaware, USA)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada, Inc., which was acquired on September 21, 2018. It is a holding company for Monzite Corporation.	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%	Indirectly 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 holding company, and sole shareholder of Designed Precision Castings, Inc	Canada

## 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 nil. At June 30, 2022, the loan balance was \$nil (December 31, 2021 - \$nil). Interest expense of \$nil (2021 - \$13,428) related to the Company's line of credit line has been recorded in the consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2022. In addition, the Company recorded \$144,728 (2021 - \$13,538) of lease interest expense in the three months end June 30, 2022.

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**9. Bank Indebtedness – continued**

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**

	<b>June 30, 2022</b>	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	394,275	159,4300
Interest	289,033	67,440
Currency translation	(14,091)	24,659
Lease liability end of period	<u>\$ 6,515,152</u>	<u>\$ 6,537,256</u>
Less current portion	328,505	239,445
Long term portion	<u>\$ 6,186,647</u>	<u>\$ 6,297,811</u>

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.

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.

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**10. Lease Liability – continued**

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

<b>Location</b>	<b>Type</b>	<b>Liability</b>	<b>Expires</b>	<b>Entered/ Renewed</b>
Cerritos, California	Manufacturing and office	\$ 4,083,236	December 2031 with a 10-year extension option which management expects to exercise	Entered December 2021
Cerritos, California	Warehouse	299,456	June 2026	Renewed June 2021
Brampton, Ontario	Manufacturing and office	1,823,006	December 2026 with a 5- year extension option which management expects to exercise	Entered December 2021
Nashua, New Hampshire	Manufacturing and office	224,868	March 2026	Renewed March 2021
Brampton, Ontario	Equipment purchase	84,586	February 2026	Entered February 2022
		<b>\$ 6,515,152</b>		

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.

	<b>California</b>	<b>Nashua</b>	<b>Ontario</b>	<b>Total</b>
Total	143,393	22,000	53,842	219,235

Future minimum lease payments are as follows:

2022	\$ 423,002
2023	890,257
2024	890,046
2025	902,591
2026	785,787
2027-2031	<u>3,493,750</u>
<b>Total</b>	<b>\$7,385,433</b>



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**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, Issued for acquisition (note 3)	11,333,854	\$ 8,204,897
Issued and outstanding December 31, 2021	3,078,710	2,061,663
Issued for private placement	14,412,564	\$10,266,560
Issued and outstanding June 30, 2022	1,000,000	985,883
	15,412,564	\$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.

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
<b>Options outstanding at December 31, 2021 and March 31, 2022</b>	<b>1,046,000</b>	<b>CAD \$0.76 to \$1.85</b>	<b>CAD \$0.97</b>
Options – expired	(81,000)	CAD \$1.40 to \$2.00	CAD \$1.85
<b>Options – granted</b>	<b>50,000</b>	<b>CAD \$0.60 to \$0.89</b>	<b>CAD \$0.76</b>
<b>Options outstanding at June 30, 2022</b>	<b>1,015,000</b>	<b>CAD \$0.60 to \$1.37</b>	<b>CAD \$0.89</b>
<b>Options exercisable at June 30, 2022</b>	<b>383,328</b>	<b>CAD \$0.90 to \$1.35</b>	<b>CAD \$0.90</b>

The Company did grant 50,000 options during the three and six months ended June 30, 2022.

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**11. Share Capital – continued**

The options that are outstanding at June 30, 2022 are summarized as follows:

<b>Options Outstanding</b>	<b>Option Price</b>	<b>Weighted Average Exercise Price of Options Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>
140,000	CAD \$0.76	CAD \$0.76	4.43 years
875,000	CAD \$0.90-\$0.92	CAD \$0.91	3.12 years
1,015,000	CAD \$0.76-.92	CAD \$0.89	3.14years

  

<b>Options Vested</b>	<b>Option Price</b>	<b>Weighted Average Exercise Price of Options Currently Exercisable</b>	<b>Weighted Average Remaining Contractual Life</b>
383,328	CAD \$0.90	CAD \$0.90	2.41

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 June 30, 2022, was \$22,669 (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%

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 June 30, 2022	1,400,000	CAD \$0.95 to \$2.26	CAD \$1.59
Warrants exercisable at June 30, 2022	492,500	CAD \$0.95 to \$1.55	CAD\$1.16

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## 11. Share Capital – continued

The warrants that are outstanding as of June 30, 2022 are summarized as follows:

Warrants Outstanding	Warrant Exercise Price	Weighted Average Remaining Life
200,000	CAD \$0.95	4.48years
200,000	CAD \$1.27	4.23 years
125,000	CAD \$1.27	4.23 years
175,000	CAD \$1.41	4.23 years
200,000	CAD \$1.55	4.23 years
250,000	CAD \$1.98	4.23 years
250,000	CAD \$2.26	4.23 years
1,400,000	CAD \$1.59	4.27 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%

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 \$16,298 in the six months ended June 30, 2022 (2021 - \$7,502).

## 12. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	<b>June 30, 2022</b>	June 30, 2021
Balance, beginning of year	<b>\$ 2,083,436</b>	\$ 1,961,473
Share-based compensation (Note 11(c), (d))	<b>57,929</b>	24,701
Balance, end of period	<b>\$2,141,366</b>	\$ 1,986,174

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### 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.

1,015,000 options (2021 – 676,000) 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 and six months ended June 30, 2022 and 2021 because the Company was in a net loss position for the three and six months ended June 30, 2022 and 2021.

### 14. Segment Information

The Company has its operations and subsidiaries in the United States and Canada. Sales are conducted in the both the United States and Canada.

	United States	Canada	Total
<b>For the six months ended June 30, 2022</b>			
<b>Revenue</b>	\$ 3,116,105	\$ 1,724,105	\$ 4,840,210
<b>Net loss</b>	(222,399)	(960,840)	(1,183,239)
<b>Long term assets</b>	6,389,750	7,176,836	13,566,586
For the six months ended June 30, 2021			
Revenue	\$ 2,469,841	\$ -	\$ 2,469,841
Net loss	(668,225)	(133,386)	(801,611)
Long term assets	6,927,341	1,739,686	8,667,027

### 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.

	June 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>At FVTPL</b>				
Cash	\$ 2,353,127	2,353,127	\$ 2,418,301	\$ 2,418,301
<b>At FVOCI</b>				
Investment	372,789	372,789	426,288	426,288
<b>At Amortized cost</b>				
Accounts receivable	1,787,858	1,787,858	2,352,189	2,352,189
Due from related parties	8,000	8,000	14,000	14,000
Accounts payable and accrued liabilities	1,208,207	1,208,207	1,889,564	1,889,564

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**15. Financial Instruments – continued**

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

<b>Assets</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	\$	\$	\$	\$
Cash	2,353,127	2,353,127	-	-
Investment	372,789	372,789	-	-

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.

Interest Rate Risk

The Company has no borrowing and no interest rate risk at June 30, 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 Other Comprehensive Income. At June 30, 2022, a 1% change in the price of the investment would have an impact of \$4,806 annually (December 31, 2021 - \$4,203).

Liquidity Risk

The Company had \$2,353,127 in cash on hand at June 30, 2022, and had no borrowing at June 31, 2022, nor December 31, 2021. If the Company should need additional liquidity, it would pursue asset-based lending secured by its assets.

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**15. Financial Instruments – continued**

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

	<b>≤ 1 year</b>	<b>&gt; 1 year ≤ 3 years</b>	<b>&gt; 3 year ≤ 4 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
<b>June 30, 2022</b>					
Accounts payable and accrued liabilities	\$ 1,208,207	\$ -	\$ -	\$ -	\$ 1,208,207
December 31, 2021					
Accounts payable and accrued liabilities	\$ 1,889,565	\$ -	\$ -	\$ -	\$ 1,889,565

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 six months ended June 30, 2022, the Company had one customer who each accounted for in excess of 10% of revenue for approximately \$881,000 or 18% of sales (June 30, 2021 – two customers totaling \$1,084,000 or 44% 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.

	<b>Total</b>	<b>≤ 30 days</b>	<b>&gt; 30 days ≤ 60 days</b>	<b>&gt; 60 days ≤ 90 days</b>	<b>&gt; 90 days</b>
<b>June 30, 2022</b>	\$ 1,787,858	\$ 1,409,563	\$ 161,839	\$ 98,149	\$ 118,308
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.