Omni-Lite Industries Canada Inc.
For the year ended December 31, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes of Omni-Lite Industries Canada Inc. for the year ended December 31, 2018. Omni-Lite Industries Canada Inc. ("Omni-Lite" or the "Company") reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB. The Company's functional currency is in United States ("US") dollars and all amounts in this MD&A are expressed in US dollars. This discussion has been completed as of April 29, 2019.

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

Company Overview

Omni-Lite Industries Canada Inc. is a recognized precision manufacturer of forged and electronic components with a core mission of utilizing material science research and development for mission critical applications. The Company's specialized, computer-controlled hot and cold forging systems combined with its design and materials science expertise have enabled us to solve our customers' extremely challenging product needs. In addition, we have the range of equipment and capacity necessary to respond to a wide range of complex high-volume requirements.

On September 21, 2018, Omni-Lite acquired a wholly-owned subsidiary, Monzite Corporation ("Monzite"). Monzite is a value-add designer and contract manufacturer of electronic components for high performance electronic sensors to the largest of the OEM system integrators serving the Defense, Aerospace, Medical, Industrial IoT, and Secure Communications markets. The combination of Omni-Lite and Monzite brings together the natural marriage of high-performance microelectronics and advanced materials where small size is a premium, strong product design manufactured to operate in harsh environments that must yield specialized performance. As a result, the Company will be able to take advantage of integrating miniature electronics with metal enclosure components including functional block performance as either a sensor or sensor component. The Companies will be able to leverage its current relationships, market knowledge to expand cold metal forging capabilities into new industry verticals. Both companies address the same markets with complementary mission and capability: specialized performance, strong and durable solutions, and products built in volume at low cost.

Omni-Lite is managed as a single business by its chief operating decision-makers. The Company operates two business segments defined as forged and electronic components. Through its wholly owned subsidiaries which include: Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Monzite Corporation, Impellimax Inc., Formed Fast International Inc., and Omni-Lite Properties Inc., the Company designs, engineers, manufactures, and markets specialized components to a broad spectrum of Fortune 500 customers. Its components are utilized in the products for Boeing, Airbus, Bombardier, Chrysler, Ford, Harris, L3, Lockheed Martin, Raytheon, the U.S. Military, Nike, and Adidas. The requirements and stature of these customers necessitates that the Company operate at a very high level of engineering and production efficiency.

To drive 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 (8) U.S. Patents covering innovations in materials, processes, and design.

To gain access to new nanostructured materials and technical services being pioneered in this innovative industry, Omni-Lite invested in California Nanotechnologies Corp., a publicly listed company trading as "CNO" on the TSX Venture Exchange. Approximately 19% of the outstanding shares of CNO are held by a wholly-owned subsidiary of Omni-Lite.

Selected Annual Consolidated Financial Information

All figures are in US dollars except as noted.

Basic Weighted Average Shares Issued and Outstanding, December 31, 2018: 10,413,857	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**	**For the year ended December 31, 2016**	**For the year ended December 31, 2015**
Revenue	$ 7,074,908	$ 6,539,934	$ 7,179,808	$ 7,479,958
EBITDA(1)	115,062	1,355,690	2,056,566	1,959,409
Adjusted EBITDA(1)	1,272,725	1,717,201	1,985,769	2,336,275
Net (loss) Income	(5,982,848)	737,824	762,595	884,975
Diluted EPS	(0.57)	0.07	0.07	0.07
Total Assets	17,230,540	21,384,032	21,667,500	21,983,721

Results from Operations

Revenue: For the fiscal year ended December 31, 2018, Omni-Lite reported revenue of $7,074,908 as compared to $6,539,934 for the year ended December 31, 2017 or an increase of 8% from the prior year. The increase is due primarily to the addition of Monzite Corporation.

Cost of Goods Sold: For the year ended December 31, 2018 Cost of Goods Sold ("COGS") was $3,591,011 as compared to $2,971,976 in the year ended December 31, 2017 or an increase of 21%. In the year ended December 31, 2018 the Company increased its inventory reserve to approximately $765,000 and disposed of the related inventory. The company does not anticipate additional significant inventory reserves in 2019. Also included in fiscal year 2018 cost of goods sold was a charge of $99,964 associated with marking up Monzite's finished goods to selling price as required by fair value acquisition accounting. The remaining increase was due primarily to increased revenue. Please see table below.

	December 31, 2018	December 31, 2017
Cost of goods sold	$ 2,968,923	$ 2,729,099
Allowance for obsolete inventory	522,124	242,877
Mark to market Amortization	99,964	-
	$ 3,591,011	$ 2,971,976

Overhead Expenses: overhead expenses for the year ended December 31,2018 were $4,538,741 as compared to $3,390,683 for the twelve months ended December 31, 2017 or an increase of $1,148,060. Approximately $172,000 of the increase was due to a legal settlement, approximately $280,000 was related to expenses associated with the acquisition of Monzite. The remaining increase was due primarily to investments in senior management and business development.

Research and product design ("R&D") expense: for the year ended December 31, 2018 was $84,834 as compared to $24,611 in the year ended December 31, 2017. The increase was due to product development costs associated with Monzite Corporation's electronic subcomponents.

Other income expense: Other expense was $4,969,878 in the year ended December 31, 2018 as compared to other income of $28,450 in the year ended December 31, 2017. The increase in other expense was due to an impairment charge recorded by the company in December of 2018.
As a result of the Company's market capitalization being less than its net assets, an impairment test was performed at December 31, 2018 for the Omni-lite CGU. The recoverable amount of the Omni-lite CGU was determined based on a value in use calculation using the following key assumptions:

- 4 year cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 4 years used a terminal growth rate of 2%;
- Forecasted revenue at an average growth rate of 10%;
- Average forecasted earnings before interest, taxes, depreciation and amortization ("EBITDA") of 25%; and,
- Cash flows were discounted at a after-tax discount rate of 14% based on the Company's post-tax weight average cost of capital and risks specific to the particular CGU (pre-tax discount rate of 19%).

As a result of the impairment test performed the Company recognized an impairment of $5,000,000 against property, plant and equipment. The impairment loss was allocated on a pro-rata basis, excluding land and building which had a carrying amount below its fair value less costs of disposal determined using available market data.

Income Tax Provision: Current income tax expense was 13,452 for the year ended December 31, 2018 as compared to $64,093 for the year ended December 31, 2017. Deferred taxes were a recovery of $1,515,476 as compared to a recovery of $596,192 for the year ended December 31, 2017.

Net Income: Net loss for the year ended December 31, 2018 was $4,524,039 as compared to net income of $737,824 for fiscal year 2017. The changes in net income are contained in the explanation above.

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

Basic earnings per share were ($0.43) compared to $0.07 in fiscal year 2017 based on the weighted average shares outstanding of 10,413,857 and 10,255,472 in fiscal year 2017. Actual shares outstanding at December 31, 2018 were 11,333,854 as compared to 10,015,520 as of December 31, 2017.

The diluted earnings per share were ($0.43) in fiscal year 2018, compared to $0.07 in fiscal year 2017. At December 31, 2018, the diluted weighted average number of shares was 10,413,857. 434,333 stock options and 1,200,000 warrants were excluded in calculating the weighted-average number of diluted common shares outstanding, because their exercise price was in excess of the annual average common share market price in the year (233,000 in 2017).

SUMMARY OF FINANCIAL HIGHLIGHTS (US $)

All figures in US dollars unless noted.

Basic Weighted Average Shares Issued And Outstanding, December 31, 2018: 10,413,857	**For the year ended December 31, 2018**	**For the year ended December 31, 2017**	**% Increase (Decrease)**
Revenue	$ 7,074,908	$ 6,539,934	8%
Cash Flow from Operations	658,933	2,083,701	(68%)
Free Cash Flow[1]	(100,294)	954,366	NA
EBITDA[1]	115,064	1,355,690	(92%)
Adjusted EBITDA[1]	1,272,725	1,717,201	(29%)
Net Income (Loss)	(4,524,039)	737,824	NA
Diluted EPS	(0.43)	0.07	NA

The components of Free Cash Flow[1] are classified as follows:

	December 31, 2018	**December 31, 2017**
Cash flow from operations	$ 658,933	$ 2,083,701
Purchase of property, plant and equipment	(759,227)	(1,129,335)
	$ (100,294)	$ 954,366

Quarterly Information

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

ALL FIGURES IN US DOLLARS UNLESS NOTED

	Dec 31/2018	Sep 30/2018	Jun 30/2018	Mar 30/2018	Dec 31/2017	Sep 30/2017	Jun 30/2017	Mar 31/2017
Revenue	2,145,654	1,965,233	1,622,331	1,341,690	1,043,837	2,016,906	1,754,952	1,724,239
Cash Flow from Operations	290,758	381,399	105,044	(118,268)	230,975	1,158,611	215,129	478,986
Free Cash Flow	(3,101)	255,845	(22,607)	(330,431)	(120,095)	942,934	(15,098)	146,625
Adjusted EBITDA	8,004	581,070	457,076	226,575	4,315	656,201	525,731	530,954
EBITDA	(86,688)	(254,019)	429,707	26,064	(306,359)	632,702	510,849	518,498

Net Income (Loss)	(3,864,835)	(584,750)	113,429	(187,833)	(295,183)	445,006	321,806	266,195
EPS (Loss) Basic	(0.36)	(0.06)	0.01	(0.02)	(0.038)	0.043	0.031	0.036
EPS (Loss) Diluted	(0.36)	(0.06)	0.01	(0.02)	(0.037)	0.042	0.03	0.035

(1) EBITDA is a non-IFRS financial measure defined as earnings before interest expense, taxes, and depreciation. Adjusted EBITDA is a non-IFRS financial measure defined as earnings before interest expense, taxes, depreciation, amortization, stock-based compensation, and non-recurring items, if any. Free Cash Flow is a non-IFRS financial measure defined as cash flow from operations minus capital expenditures. These are non-IFRS financial measures, as defined herein, and should be read in conjunction with IFRS financial measures. The non-IFRS financial measures as used herein may not be comparable to similarly titled measures reported by other companies. We believe the use of EBITDA, Adjusted EBITDA and Free Cash Flow along with IFRS financial measures enhances the understanding of our operating results and may be useful to investors in comparing our operating performance with that of other companies and estimating our enterprise value. EBITDA is also a useful tool in evaluating the operating results of the Company given the significant variation that can result from, for example, the timing of capital expenditures and the amount of working capital in support of our customer programs and contracts. We use EBITDA, Adjusted EBITDA and Free Cash Flow internally to evaluate the operating performance of the Company, to allocate resources and capital, and to evaluate future growth opportunities.

Liquidity and Capital Resources

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

	December 31, 2018	**December 31, 2017**
Net cash from operating activities	$ 658,933	$ 2,083,701
Net cash from (used) in financing activities	(10,395)	(556,740)
Net cash from (used) in investing activities	(1,147,843)	(1,164,063)
Net increase (decrease) in cash	(499,303)	362,898
Cash at the beginning of the year	839,874	476,976
Cash at the end of the year	340,571	839,874

At December 31, 2018, the Company's working capital (current assets – current liabilities) was $3,480,658, a decrease of 12% from the December 31, 2017 working capital amount of $3,936,802.

The current ratio defined as current assets divided by current liabilities was 4.8 at December 31, 2018 as compared to 8.2 at December 31, 2017.

The company has no debt at December 31, 2018.

Cash flow from operating activities was $658,933 for the twelve months ended December 31, 2018 as compared to $2,083,701 for the twelve months ended December 31, 2017. The primary reason for the decrease was lower income associate with items noted in the explanation of change in expenses.

Cash flow used by financing activities in 2018 was $10,395 as compared to amounts used for financing activities was $556,740 in 2017. The primary reason for the improvement is that in 2017 the Company used $518,429 to repurchase stock. This did not occur in 2018.

Cash flow used in investing activities was $1,147,843 in the year ended December 31, 2018 and compared to $1,164,063 used in 2017. The company reduced capital expenditures by $370,108 in 2018 and used $385,231 net of cash acquired for the acquisition of Monzite Corporation. In 2017, the Company substantially completed the installation of a solar array system representing a capital expenditure of $493,089.

The Company's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from our credit line, and long term debt securitized by real estate and equipment. At December 31, 2018, Company has access to a line of credit facility of up to $1,200,000 for operating purposes, bearing interest at the Prime Rate maturing on September 30, 2019 (the "Credit Agreement"). The available credit line at December 31, 2018 was $1,200,000 (2017 - $1,200,000). The Credit Agreement is secured by the Company's accounts receivable, inventory, property, plant and equipment, and general intangibles. Under this agreement, the Company has agreed to certain conditions and financial covenant ratios, based on financial results including net worth, current and debt service ratios, and profitability. At December 31, 2018 the Company has not met the Tangible Net Worth or Profitability covenants and has applied for a waiver. In the event of a default, the interest rate is increased by 5%, however no amount was owing at December 31, 2018.

Capital Disclosures

The objective for managing the Company's capital structure is to ensure that the Company has adequate liquidity to fund growth. The Company generally relies on operating cash flows to fund expansion and product development. However, given the long cycle time of some of the development projects, significant capital investment prior to cash flow generation may be required. As such the company maintains a $1,200,000 line of credit which it uses from time to time as necessary. The Company's capital management policy is to maintain an appropriate balance between short-term borrowings, long-term debt and shareholders' equity and maintaining sufficient undrawn committed credit capacity to provide adequate liquidity

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

	2018	2017
Net Income	$ (4,524,039)	$ 737,824
Add:		
Impairment	5,000,000	-
Interest expense	1,341	-
Provision for income taxes	(1,502,024)	(532,099)
Depreciation	1,139,786	1,149,965
EBITDA [(1)]	$ 115,064	$ 1,355,690
Add:		
Amortization of intangibles	21,333	
Share based compensation	62,412	118,634
Legal settlement	171,828	-
Allowance for obsolete inventory	522,124	242,877

Acquisition transaction expenses	280,000	-
Finished goods mark to market cost	99,964	
Adjusted EBITDA [(1)]	$ 1,272,725	$ 1,717,201

Risk Factors

Capability to Deliver Results
Omni-Lite's results are dependent on a number of factors including customer demand, market cycle, the Company's continued success in materials and production methods, foreign exchange rates, effective marketing, retention of expertise, and continued access to the financial markets.

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.

Business Risk Factors
Other risks include those recognized by companies within the manufacturing sector and include,

1. **Market cycle** – The Company's revenues are dependent on divisions such as the aerospace, defense, and specialty automotive and sports and recreational sectors that may experience cyclical changes in demand. The Company minimizes its risk by diversifying its customer base.

2. **Better technology** – Improvements in materials and processing methods developed by others, which Omni-Lite does not adopt or license may provide other companies with a greater competitive edge. Omni-Lite strives to remain at the forefront of material science and progressive forging by continuing to invest in research and development.

3. **Sales issues** – The Company's sales may not grow at the same rate historically shown. There may not be suitable projects identified for the Company to undertake. 73% of the Company's revenue comes from 4 customers. A loss of a key customer could adversely affect us. We work closely with our customers to ensure continuity of business.

4. **Raw material costs** – Supply and demand dictates the price of the raw materials utilized by Omni-Lite. Certain raw materials can only be obtained from a few suppliers. Delays or increased costs may be associated with obtaining these raw materials. Material costs are kept low by ordering economical lot sizes, but may increase if supplies become limited.

5. **Customer supplied material** – Certain customers provide their own raw material. Delays may result if the customer's raw material is not supplied on a timely basis to the Company.

6. **Employee costs** - The cost of labor may increase, as competition for qualified employees in the Southern California area is generally strong. Labor costs are managed by including employees in the stock option and bonus plan and by increasing efficiency through advanced technology.

7. **Key personnel** - The success of the Company and its ability to continue to carry on operations is dependent upon its ability to retain the services of certain key employees and members of its board of directors. The loss of their services to the Company may have a materially adverse effect on

the Company. The Company has a stock option and warrant plan for management and employees as a method of motivation and retaining key employees.

8. **Quality issues** – The Company is ISO 9001:2015 registered and is working on obtaining ISO/TS 16949 and AS 9100 certification. Delays in establishing compliance and registration in ISO/TS 16949 or AS 9100 may cause delays in shipping or loss of business in the automotive or aerospace divisions.

9. **One manufacturing facility** - If the Company suffered a loss to the facility due to catastrophe, its operations could be seriously harmed. The Company's facility is subject to catastrophic loss due to fire, flood, terrorism or other, natural or man-made disasters. In particular, due to its location, the facility could be subject to a severe loss caused by earthquake.

10. **Development efforts** – Many of the Company's products are complex and require long development times before entering the production phase. Typical lead times may range from four months to eighteen months depending on the complexity of the component. The long lead-time may delay the profitability of the project.

11. **Political turmoil** – The Company's business dealings are international. Changes in governments or policies may cause delays or restrictions that may affect the operating results.

12. **Taxation matters** – As any Company, at times, certain tax strategies could be challenged by local taxation authorities. Until the time frame for reassessment has been statute barred or the taxation authorities have reviewed and not objected to the tax filings, there is always the possibility that a reassessment can occur.

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

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

Of particular significance is the fact that Omni-Lite has received eight patents.

<u>Financial Instruments</u>
Financial instruments of the Company consist of cash, accounts receivable, due from related parties, investment and accounts payable and accrued liabilities.

	December 31, 2018		December 31, 2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
At fair value through profit or loss				
Cash	$ 340,571	$ 340,571	$ 839,874	$ 839,874
At amortized cost				
Accounts receivable	1,132,435	1,132,435	1,030,258	1,030,258
Due from related parties	1,536,463	1,536,463	1,452,947	1,452,947
Accounts payable and accrued liabilities	909,269	909,269	543,692	543,692
At fair value through other comprehensive income				
Investment	220,074	220,074	430,515	430,515

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	$ 340,571	$ 340,571	$ -	$ -
Investment	220,074	220,074	-	-

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

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

The fair value of the Company's due from related parties approximate their fair values due to the amounts being due on demand.

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

Foreign currency risk

A portion of the Company's operations are located outside of the United States and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company believe its exposure to foreign currency risk to be minimal. At December 31, 2018, the Company had the following balances denominated in Canadian dollars which have been translated into U.S. dollars in accordance with the Company's foreign exchange accounting policy.

	December 31, 2018	December 31, 2017
(Bank overdraft) cash	$ (10,527)	$ 20,134
Accounts payable	108,502	71,547

As at December 31, 2018, the increase or decrease in (loss) income before taxes for a 10% change in the U.S Dollar exchange rate amounts to approximately $11,903 (2017 - $7,378).

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 with changes from the prior year's fair value reported in OCI. A 1% change in the price of the investment would have an impact of $2,201 (2017 - $4,305).

Interest Rate Risk
The Company's commercial advance line discussed in Note 12 is subject to floating rates as it is tied to the Prime Rate. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As at December 31, 2018, the increase or decrease in (loss) income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $nil (2017 - $nil).

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

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

December 31, 2018	**≤ 1 year**	**> 1 year ≤ 3 years**	**> 3 year ≤ 4 years**	**> 5 years**	**Total**
Accounts payable and accrued liabilities	$ 909,269	$ -	$ -	$ -	$ 909,269
Total	$ 909,269	$ -	$ -	$ -	$ 909,269

December 31, 2017	**≤ 1 year**	**> 1 year ≤ 3 years**	**> 3 year ≤ 4 years**	**> 5 years**	**Total**
Accounts payable and accrued liabilities	$ 543,692	$ -	$ -	$ -	$ 543,692
Total	$ 543,692	$ -	$ -	$ -	$ 543,692

Credit Risk
The Company manages credit risk over accounts receivable by dealing with financially sound customers, based on an evaluation of the customer's financial condition. The Company manages credit risk over cash by maintaining bank accounts with large financial institutions. For the period ended December 31, 2018, the Company was engaged in contracts for products with four (2017 – three) customers in excess of 10% of revenue, which accounted for $5,130,320 (2017 - $4,114,026) or 73% (December 31, 2017 – 63%) of the Company's total revenue. 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 our accounts receivables which are not considered impaired.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days
December 31, 2018	$ 1,132,435	$ 795,227	$ 269,624	$ 9,932	$ 1,029	$ 56,623

December 31, 2017	$ 1,030,258	$ 674,702	$ 234,139	$ 67,492	$ 46,551	$ 7,374

Outstanding Share Capital

As of April 29, 2019:

- 11,333,854 Common Shares issued and outstanding
- 434,333 Stock options outstanding
- 286,995 Stock options exercisable
- 1,200,000 warrants outstanding
- Nil warrants exercisable

Transactions with Related Parties

Due from related parties includes advances to a company under common management. An amount of $1,088,879 (2017 - $1,048,656) is due from California Nanotechnologies Corp. bearing interest at 2% per annum and due on demand. The loan is secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nanotechnologies Corp. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of California Nanotechnologies Corp. The Company has guaranteed a long-term credit facility with an advance line in the amount of $800,000. At December 31, 2018, the credit facility balance was $718,710 (2017 - $800,000). This related entity also engaged with the Company for revenue of $32,007 (2017 – $49,377) and incurred expenses of $13,139 (2017 – $33,127). The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

The Company has outstanding an unsecured interest free loan to one employee in the amount of $20,000 (December 31, 2017 - $20,000), forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022. Six employees (December 31, 2017 – five) have received a grant related to the purchase of a hybrid/electric car under the Company's *Greenhouse Gas Reduction Incentives for Employees* program in the amount of $5,000 each. The six grants outstanding mature in 2021, 2022 and 2023. One (2017 – two) current employee has received an unsecured interest free loan from the Company with amounts due totalling $2,228 (December 31, 2017 - $4,511), with a current portion of $1,486 (December 31, 2017 – 7,282), with a maturity date in 2020. The Company has issued a loan due on demand to the former Chief Executive Officer for $395,356 representing principal and interest (December 31, 2017 - $354,780) at a 2% interest rate. $361,929 of the loan is secured by the former Chief Executive Officer's related residential property.

Board of Directors

The Company currently has four directors.

International Operations

In September 1997, Omni-Lite Industries Canada Inc. was established by the amalgamation of Omni-Lite Industries Inc. and Omni-Lite Industries Corp., which were both incorporated in

Calgary, Alberta. To support the international scope of the market place, Omni-Lite has established two wholly owned subsidiaries in Barbados. These complement the production center in Cerritos, California. The Cerritos production center is located in the heart of Southern California's aerospace industry which facilitates access to customers, specialized equipment, materials, and workforce. On September 21, 2018, Omni-Lite acquired a wholly-owned subsidiary, Monzite, a private company based in Nashua, New Hampshire. Monzite manufactures multi-chip microelectronic components for aerospace, defense, industrial and medical applications. The Companies will be able to leverage its current relationships and market knowledge to expand cold metal forging capabilities into new industry verticals. The staff in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

The Company has operations and subsidiaries in the United States, Canada and Barbados. The Company allocates its revenues between countries based on location that has title to the contract. The Company has utilized and reported revenues from products sold based on the Company lo cations for each of these segments as follows:

December 31, 2018	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenue	**$ 6,790,429**	**$ -**	**$ 571,440**	**$ (286,961)**	**$ 7,074,908**
Net (loss) income	**(4,511,206)**	**(272,153)**	**259,320**	**-**	**(4,524,039)**

December 31, 2017	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	$ 6,273,806	$ -	$ 709,928	$ (443,800)	$ 6,539,934
Net (loss) income	665,004	(111,392)	184,212	-	737,824

<u>New accounting policies</u>

IFRS 9 Financial Instruments ("IFRS 9")

On January 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures using the modified retrospective approach. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. On the adoption date of January 1, 2018, IFRS 9 did not result in any adjustments to the opening consolidated statement of financial position.

Classification and Measurement of Financial Instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into three categories: (1) measured at amortized cost, (2) fair value through profit and loss ("FVTPL") and (3) fair value through other comprehensive (loss)income ("FVOCI"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive (loss)income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

Amortized Cost

The Company classifies its accounts receivable, due from related parties, accounts payable and accrued liabilities, as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method. These assets and liabilities are initially measured at fair value plus or minus transaction costs directly attributable to the financial assets or liabilities

FVTPL

The Company classifies its cash as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the consolidated statements of (loss) income and comprehensive (loss) income. Transaction costs relating to financial instruments at FVTPL are expensed as incurred.

FVOCI

The Company elected to classify its equity investment as measured at FVOCI. Financial assets classified as FVOCI are subsequently measured at fair value with changes in fair value charged to other comprehensive (loss) income.

Derecognition of financial instruments

Financial assets are derecognized when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in the consolidated statements of loss (income) and comprehensive (loss) income based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in the consolidated statements of loss (income) and comprehensive (loss) income.

The following table summarizes the classification categories for the Company's financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9.

	IAS 39	**IFRS 9**
Financial Assets		
Cash	Held for trading	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost

Investment	Available for sale	FVOCI
Financial Liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost

Impairment of Financial Assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

Revenue Recognition

On January 1, 2018 the Company adopted IFRS 15 using the modified retrospective approach. Upon adoption of IFRS 15, the Company recognizes revenue from the sale of products, which include components for the aerospace, military, specialty automotive and sports and recreational industries, when the performance obligations have been completed, as custody of these products transfer to the customer, and collectability is reasonably assured. The consideration for product sales rendered is measured at the fair value of the consideration received and allocated based on their individual selling prices. The individual selling prices are determined based on the agreed upon prices at which the Company sells in separate transactions.

The Company does not expect to have any revenue contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

The adoption of IFRS 15 did not result in any changes in the timing or amount of revenue recognized for the Company's goods and services.

Business combinations

The Company uses the acquisition method of accounting to account for business combinations. At the acquisition date, the Company recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interests of the acquire at fair value. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred. If the business combination results in a contingent consideration being transferred to the acquirer, it is recognized at fair value at acquisition date.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash generating unit's ("CGU") expected to benefit from the synergies of the combination. CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Recent accounting pronouncements

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently quantifying the impact of the standard on its consolidated financial statements.

Forward-looking statements

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

Intention of management's discussion and analysis

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

Additional Omni-Lite documents are filed with Canadian regulatory agencies

Further information regarding Omni-Lite Industries Canada Inc. can be accessed under the Company's public filings found at www.sedar.com and on the Company's website www.omni-lite.com.