Omni-Lite Industries Canada Inc.
For the three and six months ended June 30, 2019

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 ("U.S.") dollars and all amounts in this MD&A are expressed in U.S. dollars. This discussion has been completed as of August 13, 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 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 application needs. In addition, we have the range of equipment and production capacity necessary to respond to a wide range of complex high-volume requirements.

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.

Selected Consolidated Financial Information
All figures are in US dollars except as noted.

SUMMARY OF FINANCIAL HIGHLIGHTS

	For the 6 months ended June 30, 2019	**For the 6 months ended June 30, 2018**	**% Increase (Decrease)**
Revenue	$5,018,034	$2,964,021	69%
EBITDA[(1)]	927,097	441,843	110%
Adjusted EBITDA[(1)]	1,046,399	669,723	56%
Net income (loss)	354,322	(74,454)	NA
Diluted EPS	$0.03	($0.01)	NA
Diluted weighted average shares outstanding	11,335,285	10,038,661	13%
Cash Flow from operations	($181,646)	($13,224)	(1,274%)
Free Cash Flow[(1)]	(426,369)	(353,038)	(21%)
Total assets	18,344,113	21,292,910	(13%)

Results from Operations for the Six Months Ended June 30, 2019

Revenue: For the six months ended June 30, 2019, Omni-Lite reported revenue of $5,018,034, an increase of 69% from $2,964,021 in the fiscal period ended June 30, 2018. This increase is due to increases in aerospace and defense sales including revenue from the Monzite acquired business.

Cost of Goods Sold: For the six months ended June 30, 2019, Cost of Goods Sold ("COGS") was $3,540,043 as compared to $1,189,333 in the six months ended June 30, 2018 or an increase of 198%. Cost of goods sold in the six months ended June 30, 2019 included a charge of $130,625 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 a combination of increased shipments and implementing a new inventory management system (See below).

On January 1, 2019, the Company implemented a new inventory management system to enhance the monitoring and allocation of costs to inventory. The new inventory management system captures all unit costs associated with producing inventory enabling the Company to calculate an average unit production cost for each unit produced and thereby calculate fully valued inventory and cost of sales.

Selling, General and Administrative Expense: Selling, general and administrative expenses for the six months ended June 30, 2019 were $981,363 as compared to $1,892,392 for the six months ended June 30, 2018, or a decrease of $910,029. The decrease was due to the implementation of a new inventory management system and a non-recurring legal settlement in the six months ended June 30, 2018 offset by increases resulting from the addition of senior management, sales and systems expense of approximately

$300,000, increase public company expenses of approximately $65,000 and amortization of intangible assets of 37,333.

Research and Product Design ("R&D") Expense: For the six months ended June 30, 2019, R&D expense was $109,499 as compared to $9,193 in the six months ended June 30, 2018. The increase is due to investment in new product design related to high voltage components.

Other Income/Expense: Interest income was $3,601 in the six months ended June 30, 2019, compared with $13,928 in the six months ended June 30, 2018. Interest expense was $21,648 in the six months ended June 30, 2019, compared with nil in the six months ended June 30, 2018. On January 1, 2019, the Company adopted IFRS 16 Leases. As a result, the Company recorded $14,453 of interest expense in the six months ended June 30, 2019 related to this item and incurred $7,196 related to borrowing against its line of credit facility (nil 2018).

Income Tax Provision: The income tax provision in the six months ended June 30, 2019 was $14,750, compared with a recovery of $38,515 in the six months ended June 30, 2018.

Net Income: Net income was $354,332 in the six months ended June 30, 2019 as compared to a net loss of $74,454 in six months ended June 30, 2018. The increase in profitability was due to a combination of increased revenue, production efficiencies and costs being absorbed into inventory which in the prior year were expensed.

Earnings Per Share: Basic earnings (loss) per share were $0.03 in the six months ended June 30, 2019 as compared to $(0.01) in the six months ended June 30, 2018 based on the weighted average shares outstanding of 11,333,854 and 10,038,661 in fiscal period 2018. Actual shares outstanding were 11,333,854 as at June 30, 2019 and 10,038,661 at June 30, 2018.

The diluted earnings (loss) per share was $0.03 in fiscal period 2019, compared to $(0.01) in the year ago period. At June 30, 2019, the diluted weighted average number of shares was 11,335,285 (10,038,661 June 30, 2018). 399,333 stock options and 1,200,000 warrants (June 30, 2018 – 399,333 stock options and no warrants) were excluded in calculating the weighted-average number of diluted common shares outstanding, because their exercise price was in excess of the Company's annual average common share market price in the period.

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

Results from Operations for the Three Months Ended June 30, 2019

Revenue: For the fiscal period ended June 30, 2019, Omni-Lite reported revenue of $2,573,509, an increase of 82% from $1,622,331 in the fiscal period ended June 30, 2018. This increase is due to increases in aerospace and defense sales including revenue from the Monzite acquired business.

Cost of Goods Sold: For the three months ended June 30, 2019, Cost of Goods Sold ("COGS") was $1,965,685 as compared to $649,321 in three months ended June 30, 2018 or an increase of 203%. Cost of goods sold in the three months ended June 30, 2019 included a charge of $39,748 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 a combination of increased shipments and implementing a new inventory management system (See below).

On January 1, 2019, the Company implemented a new inventory management system to enhance the monitoring and allocation of costs to inventory. The new inventory management system captures all unit costs associated with producing inventory enabling the Company to calculate an average unit production cost for each unit produced and thereby calculate fully valued inventory and cost of sales.

Selling, General and Administrative Expense: Selling, general and administrative expenses for the three months ended June 30, 2019 were $527,051 as compared to $832,505 for the three months ended June 30, 2018, or a decrease of $305,454. The decrease was due to the implementation of a new inventory management system offset by increases resulting from the addition of senior management, and sales of approximately $160,000, increased public company expenses of approximately $60,000 and amortization of intangible assets of 18,667.

Research and Product Design ("R&D") Expense: For the three months ended June 30, 2019, R&D expense was $60,010 as compared to $4,698 in the three months ended June 30, 2018. The increase is due to investment in new product design related to high voltage components.

Other Income/Expense: Interest income was $1,816 in the three months ended June 30, 2019 and income of $7,007 in the three months ended June 30, 2018. On January 1, 2019, the Company adopted IFRS 16 Leases. As a result, the Company recorded $6,847 of interest expense in the three months ended June 30, 2019 related to this item and incurred $6,462 related to borrowing against its line of credit facility (nil 2018).

Income Tax Provision: The income taxes in the three months ended June 30, 2019 was a recovery of $110,050, compared with a provision of $29,385 in the three months ended June 30, 2018. The recovery in the three months ended June 30, 2019 was due an adjustment of deferred taxes.

Net Income: Net income was $119,320 in the three months ended June 30, 2019 as compared to income of $113,429 in three months ended June 30, 2018.

Earnings Per Share: Basic earnings (loss) per share were $0.01 in the three months ended June 30, 2019 2019 as compared to $0.01 in the three months ended June 30, 2018 based on the weighted average shares outstanding of 11,333,854 and 10,061,547 in fiscal period 2018. Actual shares outstanding were 11,333,854 as at June 30, 2019 and 10,108,857 at June 30, 2018.

The diluted earnings per share was $0.01 in fiscal period 2019, compared to $0.01 in the year ago period. At June 30, 2019, the diluted weighted average number of shares was 11,335,285 (10,093.538 June 30, 2018). 399,333 stock options and 1,200,000 warrants (June 30, 2018 – 399,333 stock options and no warrants) were excluded in calculating the weighted-average number of diluted common shares outstanding, because their exercise price was in excess of the Company's annual average common share market price in the period.

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

Quarterly Information

The following table summarizes the Company's financial performance over the last eight fiscal quarters.

ALL FIGURES IN US DOLLARS UNLESS NOTED

	Jun 30/2019	Mar 31/2019	Dec 31/2018	Sep 30/2018	Jun 30/2018	Mar 31/2018	Dec 31/2017	Sep 30/2017
Revenue	2,573,509	2,444,525	2,145,654	1,965,233	1,622,331	1,341,690	1,043,837	2,016,906
EBITDA(1)	282,534	644,563	(93,790)	(261,111)	422,700	19,143	(313,425)	625,605
Adjusted EBITDA(1)	315,996	730,403	902	573,978	482,567	187,156	(2,751)	649,104
Net Income (Loss)	119,321	235,011	(3,864,835)	(584,750)	113,429	(187,833)	(295,183)	445,006
EPS (Loss) - Basic	0.01	0.02	(0.36)	(0.06)	0.01	(0.02)	(0.04)	0.04
EPS(Loss)-Diluted	0.01	0.02	(0.36)	(0.06)	0.01	(0.02)	(0.04)	0.04
Cash Flow from Operations	54,446	(236,092)	290,758	381,339	105,044	(118,268)	202,525	1,158,611
Free Cash Flow(1)	7,251	(433,620)	(3,101)	255,845	(22,607)	(330,431)	(148,546)	942,935

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.

	June 30, 2019	**June 30, 2018**
Net income (loss)	(4,095,253)	(26,631)
Add:		
Fixed asset impairment charge	5,000,000	-
Interest expense	22,989	-
(Recovery) Provision for income taxes	(1,448,759)	(369,604)
Depreciation	1,111,014	1,178,349
EBITDA (1)	572,195	754,023
Add:		
Stock and warrant based compensation	68,280	147,348
Amortization of intangibles	58,666	-
Amortization of finished goods mark to market	230,589	-
Allowance for obsolete inventory	522,124	242,877
Transaction expenses	280,000	-
Legal settlement	-	171,828
IFRS 16 lease accounting adjustment for lease expense	(110,576)	
Adjusted EBITDA (1)	1,621,278	1,316,076

(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 net interest, 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.

The components of Free Cash Flow are classified as follows:

	For the six months ended		For the three months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Cash flow from operations	$ (181,646)	$ (20,146)	$ 54,446	$ 105,044
Purchase of property, plant and equipment	(244,723)	(339,814)	(47,195)	(127,651)
Free Cash Flow	$ (426,369)	$ (359,960)	$ 7,251	$ (22,607)

Liquidity and Capital Resources

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

	For the six months ended		For the three months ended	
	June 30, 2019	June 30, 2018	**June 30, 2019**	June 30, 2018
Net cash from operating activities	**$ (181,646)**	$ (13,224)	**$ 54,446**	$ 105,044
Net cash from (used) in financing activities	**406,354**	32,785	**165,011**	38,765
Net cash from (used) in investing activities	**(244,723)**	$(339,814)	**(47,195)**	(127,651)
Net increase (decrease) in cash	**(20,015)**	(320,253)	**172,262**	16,158
Cash at the beginning of the period	**340,571**	839,874	**148,294**	503,463
Cash at the end of the period	**$ 320,556**	$ 519,621	**$ 320,556**	$ 519,621

At June 30, 2019, sources of liquidity included cash from operating activities and the Company's line of credit. At June 30, 2019, the Company's working capital (current assets minus current liabilities) was $3,967,734, an increase of 14% from the December 31, 2018 working capital amount of $3,480,658.

The current ratio defined as current assets divided by current liabilities was 3.5 at June 30, 2019, as compared to 4.8 at December 31, 2018.

The Company has borrowed $500,000 under its $1.2 million line of credit facility as of June 30, 2019.

Cash Flows from Operations: Cash used in operating activities was approximately $182,000 in the first six months of 2019. Net income for the fiscal period was approximately $354,000. Non-cash charges for depreciation, amortization of intangibles and stock compensation included in net income was approximately $639,000 and adjustments for taxes and net interest expense amounted to approximately $27,000. This was offset by an increase in accounts receivable due to increased revenue of approximately $433,000. In addition, inventory increased by approximately $876,000 due a combination of a build for stock program in support of customer needs and the implementation of a new inventory management system. In addition, all other working capital items improved by approximately $110,000.

In the first six months of fiscal 2018, cash used in operating activities was approximately $13,000. Net loss for the fiscal period was approximately $74,000. Non-cash charges for depreciation and stock compensation included in net income were approximately $625,000. This was offset by a deferred tax recovery of approximately $41,000, an increase in accounts receivable of approximately $151,000 and an increase in inventory of approximately $369,000.

Cash Flow From Financing Activities: Cash provided by financing activities was $406,354 in the first half of 2019 as compared to $32,785 in the first half of fiscal 2018. In the first half of 2019, the Company borrowed $500,000 against its line of credit and recorded lease liability expense of approximately $104,000 associated with the implementation of IFRS 16 "Leases". The borrowing under the line of credit was used to support the Company's build for stock program. In the first half of 2018 the Company approximately $45,000 was generated by the issuance of stock options and advanced net funds to related parties in the amount of approximately $12,000.

In the three months ended June 30, 2019 the Company provided $165,011 in financing activities as compared to $38,765 in the three months ended June 30, 2018. In the three months ended June 30, 2019 the Company borrowed $200,000 under its line of credit facility and recorded lease liability expense of approximately $42,000 associated with the implementation of IFRS 16 "Leases". The borrowing under the line of credit was used to support the Company's build for stock program.

In the three months ended June 30, 2018, the Company generated $38,765 in funds related to financing activities. Approximately $45,000 was generated by the issuance of stock options approximately $6,000 was used for advances to related parties.

Cash Flow from Investing Activities: Cash used in investing activities was $244,723 in the first half of 2019 as compared to $339,814 in the first half of fiscal 2018. Investing activities in both fiscal periods consisted of capital expenditures for operations.

Cash used for investing activities in the second quarter of 2019 amounted to $47,195 as compared to $127,651 in the second quarter of 2018. Investing activities in both fiscal periods consisted of capital expenditures for operations.

The Company's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings under our credit facility, and long-term debt securitized by real estate and equipment. At June 30, 2019, the Company has 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 June 30, 2019 was $700,000 (2018 - $1,200,000). The Credit Agreement is secured by the Company's account receivable, inventory, property, plant and equipment, and general intangibles. Under this agreement, the Company has agreed to certain terms and conditions and financial covenants, based on financial results including net worth, current and debt service ratios, and profitability. In the event of a default, the interest rate is increased by 5%, At June 30, 2019 $500,000 was outstanding under the line of credit facility. At June 30, 2019, the Company is in compliance with its covenants.

Capital Disclosures

The objective for managing the Company's capital structure is to ensure that the Company has the financial capacity, liquidity and flexibility to fund expansion projects and product development efforts. The Company generally relies on operating cash flows to fund expansion and product development. However, given the long cycle time of some of the development projects, significant capital investment prior to cash flow generation may be required. As such, the Company maintains a $1,200,000 line of credit facility 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 maintain sufficient undrawn committed credit capacity to provide adequate liquidity.

Risk Factors

<u>Capability to Deliver Results</u>
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.

<u>Economic Factors</u>
The Company's business and operating performance is subject to economic forces beyond its control, such as changes in consumer preferences, spending patterns, government fiscal budget and appropriations and general economic conditions.

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

1. **Market cycle** – The Company's revenues are dependent on industries 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. **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 position. Omni-Lite strives to remain at the forefront of material science and progressive forging by continuing to invest in research and development. As part of this strategy, Omni-Lite was the co-founder and remains a significant shareholder of California Nanotechnologies Corp. ("CNO"). CNO was established to undertake advanced nanotechnology and related material science research and to lead in future scientific and commercialization programs.

3. **Revenue issues** – The Company's revenue may not grow at the same rate as historically shown and there may not be suitable projects and programs identified for the Company to undertake.

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 managed 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 and New England areas 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 plan for Directors, management and employees as a method of attraction, motivation and retention of key personnel.

8. **Quality issues** – The Company is ISO 9001:2008 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 markets.

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

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, loans due from related parties, investment, accounts payable and accrued liabilities.

	June 30, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	$ 320,556	$ 320,556	$ 340,571	$ 340,571
Loans and receivable				
Accounts receivable	1,565,273	1,565,273	1,132,435	1,132,435
Due from related parties	1,529,296	1,534,334	1,536,463	1,536,463
Available-for-sale				
Investment	174,190	174,190	220,074	220,074
Other financial liabilities				
Accounts payable and accrued liabilities	889,332	889,332	909,269	909,269
Bank indebtedness	500,000	500,000	-	-

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	$ 320,556	$ 320,556	$ -	$ -
Investment	174,190	174,190	-	-

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

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

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

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

Interest rate risk

The Company’s line of credit facility is subject to floating rates. The floating rate debt is subject to cash flow risk, as the required cash flows to service the outstanding debt, if any will, fluctuate as a result of changes in market interest rates. As of June 30, 2019, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $5,000 per year (December 31, 2018 - $nil). The related disclosures regarding these debt instruments are included in Note 10 of the condensed consolidated financial statements.

Foreign currency risk

Omni-Lite operates with a U.S. dollar functional currency which gives rise to currency exchange rate risk on Omni-Lite’s Canadian dollar denominated monetary assets and liabilities, such as Canadian dollar bank accounts and accounts payable. This risk was minimal as of June 30, 2019.

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 common shares of California Nanotechnologies Corp. This investment is recorded on the consolidated statement of financial position at fair value as of the statement of financial position date with changes from the prior period's fair value reported in OCI. A 1% change in the price of the investment would have an impact of $1,741 (December 2018 - $2,201).

Liquidity Risk

The Company is exposed to liquidity risk due to the borrowings under the line of credit facility. This risk is mitigated by complying with the covenants and active cash management. At June 30, 2019 the Company had borrowings under its line credit facility in the amount of $300,000. As of June 30, 2019, the Company was in compliance with all covenants except the tangible net worth covenant. The Company has applied for and received a waiver from the bank.

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at June 30, 2019:

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 889,332	$ -	$ -	$ -	$ 889,332
Bank Indebtedness	500,000	$ -	-	-	500,000
Total	$ 1,389,332	$ -	$ -	$ -	$ 1,389,332

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the fiscal period ended June 30, 2019, the Company had four customers who each accounted for in excess of 10% of revenue, for a total of $1,707,842 or 70% of sales (June 30, 2018 – 4 customers totaling $1,160,391 or 87%) of sales. During the same fiscal period, there were no export sales (June 30, 2018 – nil) to customers in various international countries in excess of 10% of revenue. The maximum exposure to credit risk is the carrying value of account receivable. The table below provides an analysis of the age of our past due accounts receivables which are not considered impaired.

	Total	Current	≤ 30 days	> 30 days ≤ 60 days	60 days ≤ 90 days	> 90 days
June 30, 2019	**1,565,273**	**$ 1,482,476**	**$ -**	**$ 35,055**	**$ 3,435**	**$ 44,307**
December 31, 2018	$ 1,132,435	$ 795,227	$ 269,624	$ 9,932	$ 1,029	$ 56,623

Outstanding Share Capital

As of August 13, 2019:

- 11,333,854 Common Shares issued and outstanding
- 434,333 Stock Options outstanding

- 306,995 Stock Options exercisable
- 1,200,000 Warrants outstanding

Transactions with Related Parties

Due from related parties includes advances to a company with one common director. An amount of $1,088,879 (December 31, 2018 - $1,088,879) is due from California Nanotechnologies Inc. bearing interest at 6% per annum and due on demand. The loan is secured by all of the assets of California Nanotechnologies Inc. Additional security for the loan has been provided by one of its founders and a current member of the board of directors of the California Nanotechnologies Inc. In addition, in September 2016, the Company guaranteed a long-term credit facility with an advance line in the amount of $250,000, which increased to $800,000 in February 2017. At February 28, 2019 (last public filing date), the credit line balance was $710,401(February 28, 2018 - $800,000). This related entity engaged with the Company for revenue of $14,747 (2018 – $16,176) in the six months ended June 30, 2019 and incurred expenses of $nil (2018 – $2,639). The transactions are considered to be in the normal course of operations and are 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, 2018 - $20,000), forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022. Six employees 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 current employee has received unsecured interest free loans from the Company with an amount due of $1,459 (December 31, 2018 - $2,228), with a current portion of $1,459 (December 31, 2018 – $1,486), with a maturity dates in 2020. The Company has loans due on demand to the former Chief Executive Officer totalling $398,958 (December 31, 2018 - $395,356). $365,531 (December 31, 2018 - $361,929) of the loan is secured by the former Chief Executive Officer's related residential property and bears interest at 2%.

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 marketplace, 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 and hot metal forging capabilities into new industry verticals. The operation in Barbados is responsible for marketing, sales, and maintaining international markets for Omni-Lite's products.

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

Six months ended June 30, 2019	**United States**	**Canada**	**Barbados**	**Inter-corporate elimination**	**Total**
Revenue	**$5,013,234**	**$0**	**$88,800**	**($84,000)**	**$5,018,034**
Net income	**582,747**	**(230,070)**	**1,655**	**-**	**354,332**

Six months ended June 30, 2018	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	$ 2,915,942	$ -	$ 98,640	$ (50,561)	$ 2,964,021
Net loss	(47,418)	(67,359)	40,323	-	(74,454)

New accounting policies

IFRS 16 "Leases," The Company adopted IFRS 16 effective January 1, 2019 using a modified retrospective approach whereby the consolidated financial statements of prior periods presented were not restated and continue to be reported under IAS 17 and related interpretations, as permitted by the specific transition provisions of IFRS 16. The Company recognized lease liabilities at January 1, 2019 for leases previously classified as operating leases, measured at the present value of lease payments using the Corporation's incremental borrowing rate at that date. Property and equipment includes the corresponding right-of-use assets also recognized at January 1, 2019. The right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments and lease incentives relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018.As permitted by IFRS 16, the Corporation elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets which will continue to be expensed on a straight-line basis over the lease term. The following practical expedients to facilitate the initial adoption of IFRS 16 have also been applied:

- The definition of a lease under IFRS 16 was applied to existing contracts at January 1, 2019;
- Each lease component and any associated non-lease components are accounted for as a single lease component;
- A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics;
- Right-of-use assets and lease liabilities were not recognized for leases with a remaining term of 12 months or less as of January 1, 2019; and
- Hindsight was used when determining the lease term when the lease contracts contain options to extend or terminate the lease.

The following table summarizes the impacts of adopting IFRS 16 at January 1, 2019:

	January 1, 2019 prior to adoption of IFRS 16	Adjustments	January 1, 2019 after adoption of IFRS 16
Property and equipment	$9,042,293	$505.310	$9,547,603
Lease liabilities	-	$505.310	$505,310

The following table reconciles the operating lease commitments at December 31, 2018 as disclosed in the audited consolidated financial statements to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	$546,643
Discounted using the incremental borrowing rate of 6% at January 1, 2019	$505,310

The following accounting policy applies as of January 1, 2019 following the adoption of IFRS 16. Prior to January 1, 2019, the Company continued to apply IAS 17 and related interpretations as disclosed in the audited annual consolidated financial statements as at and for the year-ended December 31, 2018, as permitted by the specific transition provisions of IFRS 16.

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 harbor" 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.