Omni-Lite Industries Canada Inc.
Management Discussion and Analysis
For the Three and Nine Months Ended September 30, 2021

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 three and nine months ended September 30, 2021. 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 November 22, 2021.

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 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 California Inc., Monzite Corporation and Impellimax 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, L3Harris Technologies, 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 ten (10) 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 nine months ended September 30, 2021	For the nine months ended September 30, 2020	% Increase (Decrease)
Revenue	**$4,100,641**	$5,399,056	(24%)
Adjusted EBITDA[(1)]	**(458,274)**	(217,807)	(110%)
Net loss	**(1,006,090)**	(760,756)	(32%)
Diluted EPS	**$ (0.09)**	$ (0.07)	(29%)
Diluted weighted average shares outstanding	**11,333,854**	11,333,854	-
Free cash flow [(1)]	**(456,956)**	(242,473)	(88%)
Total assets	**14,480,026**	16,850,374	(14%)

Results from Operations for the three Months Ended September 30, 2021

Revenue

For the fiscal three months ended September 30, 2021, Omni-Lite reported revenue of $1,630,801, essentially unchanged as compared to $1,630,536 in the fiscal period ended September 30, 2020. Increases in aerospace, automotive and microwave electronics sales were offset by decreases in spike sales, due to a COVID-related customer plant shutdown, and decreases in military shipments resulting from a one-time shipment in the third quarter of 2020.

Cost of Goods Sold

For the three months ended September 30, 2021, cost of goods sold (“COGS”) was $1,432,158 as compared to $1,725,528 in the three months ended September 30, 2020, or a decrease of approximately $293,000 or 17%. The reduction was due to lower depreciation expense of approximately $125,000. The remainder of the improvement was due to a combination of lower operating expenses and favorable product mix. Manufacturing cost did not reduce further due to the high fixed cost structure of manufacturing operations.

Overhead Expenses

Overhead expenses for the three months ended September 30, 2021 were $337,567 as compared to $370,490 for the three months ended September 30, 2020, a decrease of $32,923 or 9%. The decrease was due principally to a reduction in stock compensation expense of approximately $15,000, a reduction in outside services of approximately $30,000 offset by the non-recurrence of a bad debt recovery in 2020 of approximately $15,000.

Research and Product Design ("R&D") Expense:

For the three months ended September 30, 2021, R&D expense was $49,728 as compared to $98,826 in the three months ended September 30, 2020. The decrease was due to the completion of a new product design program for metal formed parts and a decrease in electronics as product development resources were re-deployed to manufacturing.

Other Income/Expense:

Interest income was $2,656 in the three months ended September 30, 2021, compared with $2,656 in the three months ended September 30, 2020. Interest expense was $26,850 in the three months ended September 30, 2021 as compared with $16,596 in the three months ended September 30, 2020. Of this amount, $13,284 was non-cash interest expense associated with IFRS 16 lease accounting as compared to $3,031 in the three months ended September 30, 2020. The remaining $13,566 ($13,565 in 2020) of interest expense was associated with borrowings under its revolving line of credit facility.

Income Tax Provision (Credit):

The income tax provision in the three months ended September 30, 2021 was a credit of $8,367 as compared to a credit of $167,983 in the three months ended September 30, 2020.

Net Income/(Loss):

Net loss was $(204,479) in the three months ended September 30, 2021 as compared to a net loss of $(410,266) in the three months ended September 30, 2020.

Income/(Loss) Per Share:

Basic loss per share was $(0.02) in the three months ended September 30, 2021 as compared to ($0.04) in the three months ended September 30, 2020 based on the weighted average shares outstanding of 11,333,854 in both periods.

The diluted loss per share was $(0.02) in the three months ended September 30, 2021, compared to ($0.04) in the three months ended September 30, 2020. At September 30, 2021 and 2020, the diluted weighted average number of shares was 11,333,854. 766,000 (756,000 in 2020) stock options and 1,200,000 (1,200,000 in 2020) warrants were excluded in calculating the weighted-average number of diluted common shares outstanding, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

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 Nine Months Ended June 30, 2021

Revenue

For the fiscal nine months ended September 30, 2021, Omni-Lite reported revenue of $4,100,641, a decrease of 24% from $5,399,056 in the fiscal period ended September 30, 2020. The reduction in revenue was principally due to the impact from the COVID-19 pandemic on Aerospace as end customers experienced weakness in demand and implemented inventory destocking initiatives in an effort to conserve cash and also munitions due to a shift in demand.

Cost of Goods Sold

For the nine months ended September 30, 2021, cost of goods sold ("COGS") was $3,923,494 as compared to $4,970,361 in the nine months ended September 30, 2020, or a decrease of $1,046,867 or 21%. Manufacturing cost did not reduce further due to the high fixed cost structure of manufacturing operations. As sales declined, resulting in reduced production requirements, the Company experienced significant under absorption of manufacturing costs.

Overhead Expenses

Overhead expenses for the nine months ended September 30, 2021 were $1,041,201 as compared to $1,206,567 for the nine months ended September 30, 2020, a decrease of $165,366 or 14%. The decrease was due principally to a reduction in stock compensation expense of approximately $52,000, payroll, outside services and travel-related expenses of approximately $143,000 offset by the non-recurrence of a bad debt recovery in 2020 of approximately $27,000.

Research and Product Design ("R&D") Expense:

For the nine months ended September 30, 2021, R&D expense was $180,395 as compared to $228,670 in the nine months ended September 30,2020. The decrease was due to the completion of a new product design program for metal formed parts and a decrease in electronics as product development resources were re-deployed to manufacturing.

Other Income/Expense:

Interest income was $7,969 in the nine months ended September 30, 2021, compared with $5,313 in the nine months ended September 30, 2020. Interest expense was $74,452 in the nine months ended September 30, 2021 as compared with $52,265 in the nine months ended September 30, 2020. Of this amount, $34,189 was non-cash interest expense associated with IFRS 16 lease accounting as compared to $11,499 in the nine months ended September 30, 2020. The remaining $40,263 ($40,766 in 2020) of interest expense was associated with borrowings under its revolving line of credit facility.

Income Tax Provision (Credit):

The income tax provision in the nine months ended September 30, 2021 was a credit of $94,023 as compared to a credit of $292,739 in the nine months ended September 30, 2020.

Net Income/(Loss):

Net loss was $(1,006,090) in the nine months ended September 30, 2021 as compared to a net loss of $(760,756) in the nine months ended September 30, 2020.

Income/(Loss) Per Share:

Basic loss per share was $(0.09) in the nine months ended September 30, 2021 as compared to ($0.07) in the nine months ended September 30, 2020 based on the weighted average shares outstanding of 11,333,854 in both periods.

The diluted loss per share was $(0.09) in the nine months ended September 30, 2021, compared to ($0.07) in the nine months ended September 30, 2020. At September 30, 2021 and 2020, the diluted weighted average number of shares was 11,333,854. 766,000 (756,000 in 2020) stock options and 1,200,000 (1,200,000 in 2020) warrants were excluded in calculating the weighted-average number of diluted common shares outstanding, because the Company was in a net loss position and therefore any exercise would be anti-dilutive.

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 are in US dollars except as noted.*

	Sept 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 30, 2019
Revenue	**$1,630,801**	$1,200,122	$1,269,719	$1,284,720	$1,630,536	$1,623,650	$2,144,870	$2,176,487
Adjusted EBITDA(1)	**(65,877)**	(257,582)	(134,815)	(615,708)	(271,539)	(142,622)	196,683	(121,084)
Net Income (Loss)	**(204,479)**	(447,750)	(353,861)	142,664	(410,265)	(263,414)	(87,077)	(759,382)
EPS (Loss) - Basic	**$(0.02)**	$(0.04)	$(0.03)	$0.02	$(0.04)	$(0.02)	$(0.01)	$(0.07)
EPS(Loss) - Diluted	**$(0.02)**	$(0.04)	$(0.03)	$0.02	$(0.04)	$(0.02)	$(0.01)	$(0.07)
Free Cash Flow (1)	**(236,177)**	(93,464)	(127,315)	220,589	(216,730)	321,042	(346,785)	(267,006)

As Omni-Lite's management measures the performance of the Company by the metrics, among others, Adjusted EBITDA (1) and Free Cash Flow (1),

(1) Adjusted EBITDA is a non-IFRS financial measure defined as earnings before interest income, 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 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. Adjusted 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 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 Adjusted EBITDA[1] for the nine months ended September 30 are as follows:

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Net (loss)	**$ (1,006,090)**	$ (760,756)
Add:		
Depreciation	**624,871**	794,588
Amortization of intangibles	**55,833**	56,000
Stock & warrant-based compensation	**38,283**	90,189
Accounts receivable recovery associated with loan receivable write-off	**(7,304)**	(34,190)
IFRS 16 lease accounting adjustment	**(125,508)**	(173,011)
Severance expense	**-**	55,160
Interest expense	**74,452**	52,265
Interest income	**(7,969)**	(5,313)
Other income	**(10,819)**	-
(Recovery) Provision for income tax	**(94,023)**	(292,739)
Adjusted EBITDA [1]	**$ (458,274)**	$ (217,807)

The components of Free Cash Flow [1] for the nine months ended September 30 are as follows:

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Cash flow from operating activities	**$ (414,456)**	$ (215,983)
Purchase of property, plant and equipment	**(42,500)**	(26,490)
Free Cash Flow	**$ (456,956)**	$ (242,473)

The components of Adjusted EBITDA[1] on a 12-month rolling basis are as follows:

	September 30, 2021	September 30, 2020
Net (loss)	**$ (863,426)**	$ (1,520,139)
Add:		
Depreciation	**885,291**	1,063,848
Amortization of intangibles	**74,500**	74,667
Stock & warrant-based compensation	**62,731**	32,998
Accounts receivable reserve associated with loan receivable write-off	**(7,304)**	(34,190)
IFRS 16 lease accounting adjustment	**(183,568)**	(229,249)
Severance expense	**–**	116,160
Interest expense	**90,208**	63,669
Interest income	**(10,625)**	(6,951)
Other income	**(830,519)**	-
Finance guarantee expense		250,000
(Recovery) Provision for income tax	**(291,270)**	(149,705)
Adjusted EBITDA [1]	**$ (1,073,982)**	$ (338,892)

Liquidity and Capital Resources

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

	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Net cash (used) from operating activities	**$ (414,456)**	$ (215,983)
Net cash from (used) in financing activities	**283,079**	918,020
Net cash provided(used) in investing activities	**(44,406)**	(26,490)
Net increase (decrease) in cash	**$ (175,783)**	$ 675,547
Cash at the beginning of the period	**$ 1,542,405**	$ 693,245
Cash at the end of the period	**$ 1,366,622**	$ 1,368,792

<u>Cash Flows from Operations</u>

For the nine months ended September 30, 2021, cash flow from operations was a use of $(414,456) as compared to a use of ($215,983) in the nine months ended September 30, 2020. Net loss for the nine months ended September 30, 2021 after non-cash items was a use of $(388,701), as compared to a use of $(160,210) in the nine months ended September 30, 2020. The loss from operations in both periods was due to lower sales resulting from the COVID-19 pandemic. We used $(25,755) for working capital in the nine months ended September 30, 2021, as compared to a use of $(55,773) in the nine months ended September 30, 2020. The working capital use in both periods was driven by payments of accounts payable.

<u>Cash Flows from Financing Activities</u>

Cash provided by financing activities was $283,079 in the nine months ended September 30, 2021, as compared to $918,020 for the nine months ended September 30, 2020. In the nine months ended September 30, 2021, the Company received approximately $400,000 in proceeds from the Paycheck Protection 2 program and approximately $820,000 in the nine months ended September 30, 2020 from the Paycheck Protection 1 program. The Company intends to file for forgiveness of this loan once the performance period is completed. The Company made lease liability payments of approximately $125,000 in the nine months ended September 30, 2021 and approximately $173,000 in the nine months ended September 30, 2020. In 2020, the Company borrowed approximately $512,000 against its line of credit and used approximately $250,000 as payment of a finance guarantee liability.

<u>Cash Flow from Investing Activities</u>

In the nine months ended September 30, 2021, the Company used $42,500 for capital equipment. In the nine months ended September 30, 2020, the Company used $26,490 for capital expenditures.

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 revolving credit facility and access to Paycheck Protection Program funding under the U.S. government CARES Act. Under the

Cash Flow from Investing Activities – continued

CARES Act, the Company borrowed $819,700 in the year ended 2020 and an additional $399,587 in the three months ended March 31, 2021. The Company has been notified by the Small Business Administration that it has met the requirements for forgiveness and the full amount of the $819,700 loan borrowed has been forgiven. The Company intends to file for forgiveness of the $399,587 borrowed in the first quarter of 2021 once the forgiveness application window is opened by our lending institution.

The Company maintains a $3.0 million revolving credit line with City National Bank (the "Credit Agreement"). The Credit Agreement accrues interest at the US Prime Rate and matures in December 31, 2022. The Credit Agreement is secured by the Company's accounts receivable, inventory, property, plant and equipment, and general intangibles. Under the Credit Agreement, the Company has agreed to certain conditions and financial covenants including tangible net worth, debt service coverage, and loan to value measures. The Company has received a waiver for its debt service covenant and is in compliance with its covenants.

The Company has leases for manufacturing and office space at its two manufacturing locations. One lease expires in March 2026. The discount rate applied to the lease is 9%. In addition to lease payments, the Company pays annual operating costs consisting of insurance, real estate taxes and facility maintenance costs of approximately $22,000. The second lease expires on June 30, 2026. The discount rate applied to this lease is 9%. In addition to lease payments, the Company pays annual operating costs consisting of real estate taxes and insurance of approximately $3,000.

The Company's lease liabilities are as follows:

	2021	2020
Opening balance January 1	**$ 90,535**	$ 308,237
Lease addition	**595,777**	-
Lease payments	**(125,508)**	(173,011)
Interest on lease liability	**34,189**	11,499
Lease liability end of period	**$ 594,993**	$ 146,725
Less current portion	**102,126**	146,725
Long term portion	**$ 492,867**	$ -

The current ratio defined as the current assets divided by current liabilities at September 30, 2021 was 9.6, as compared to 2.7 at December 31, 2020. At December 31, 2020, the Line of Credit borrowing were classified as a current liability. If the line of credit was included in the September 30, 2021 calculation, the current ratio would be 2.7.

Transactions with Related Parties

	September 30, 2021	December 31, 2020
California Nanotechnologies:		
i. A loan receivable including accrued interest in the amount of $1,187,200 which is due on demand. Of this amount, $1,177,733 accrues interest at 2.89% per annum. The loan was secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. This loan receivable is fully impaired.	**$ -**	$ -
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 $171,000 ($257,000 at December 31, 2020).		
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.		
iv. On July 31, 2021 the Company entered into an agreement to provide space to California Nanotechnologies at the rate of $3,500 per month. The agreement is cancelable by either party with 30 days' notice.		
Has an unsecured interest free loan receivable from an employee forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022.	**20,000**	20,000
Provided three grants (December 31, 2020 – four) related to the purchases of hybrid/electric cars under the Company's *Greenhouse Gas Reduction Incentives for Employees* program in the amount of $5,000 each. One grant outstanding matures in 2021, one grant matures in 2022 and two grants mature in 2023.	**15,000**	20,000
Reserve for earned grants	**(18,000)**	(14,000)
Total due from related parties	**$ 17,000**	$ 26,000
Current portion	**7,000**	-
Long-term portion	**$ 10,000**	$ 26,000

Transactions with Related Parties - continued

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

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

Outstanding Share Capital

As of September 30, 2021:

- 11,333,854 Common Shares issued and outstanding
- 766,000 Share Options outstanding – 292,664 exercisable
- 1,200,000 Warrants outstanding - 175,833 exercisable

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 shareholder's 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 appropriated 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.

Segment Information

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. The Company's production and sales activities are located in Cerritos, California 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. Revenue and net (loss) income by geographic region are as follows:

	United States	Canada	Barbados	Inter-corporate elimination	Total
The Nine Months Ended September, 2021					
Revenue	$ 4,100,641	-	-	-	$ 1,269,719
Net (loss) income	(824,034)	(182,056)			(1,006,090)
The Nine Months Ended September 30, 2020					
Revenue	$ 5,399,056	-	-	-	$ 5,399,056
Net (loss) income	(510,772)	(249,984)	-	-	(760,756)

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.

	September 30, 2021		December 31, 2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 1,366,622**	**$ 1,366,622**	$ 1,542,405	$ 1,542,405
At FVOCI				
Investment	**377,064**	**377,064**	471,720	471,720
At Amortized cost				
Accounts receivable	**1,079,283**	**1,079,283**	976,878	976,878
Due from related parties	**17,000**	**17,000**	26,000	26,000
Accounts payable and accrued liabilities	**468,174**	**468,174**	576,582	576,582
Finance guarantee liability	**-**	**-**	-	-
Bank indebtedness	**1,918,936**	**1,918,436**	1,519,349	1,519,349

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 1,366,622	$ 1,366,622	$ -	$ -
Investment	377,064	377,064	-	-

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

Financial Instruments - continued

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.

The carrying values of bank indebtedness approximates its fair value due to the market rate of interest applied.

Asset Protection

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.

Omni-Lite has received ten (10) patents.

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 management and operational 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, government fiscal budget and appropriations and general economic conditions.

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 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 Growth – 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.

Risk Factors - continued

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 – Quality issues by us or our suppliers could result in shipping delays. The Company is AS 9100 and ISO 9001:2015 certified.

9. Manufacturing Facilities – If the Company suffered a loss to its manufacturing facilities due to catastrophe, its operations could be adversely impacted. 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. See also "14. Covid-19 Pandemic" risk factor below.

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.

13. Inability to Obtain Adequate Financing – At times, the Company's growth strategy and working capital needs may require it to borrow funds from lending institutions. If it is unable to obtain adequate financing it may not be able to fund its operations.

Risk Factors - continued

14. COVID-19 Pandemic – The ongoing implications of the novel coronavirus (COVID-19 virus) pandemic on our business, results of operations, daily operations, financial condition and liquidity, which may include, among other things, reduction in customer production and development contracts and programs, delays or deferrals in the awarding or funding of customer programs and contracts, potential increases in vendor and commodity or raw material costs, closures of or reduced operating hours at our affected manufacturing facilities, our ability to implement strategic and operational growth plans, adverse effects on the health of our employees, our financial results, and may also include potential inability to obtain supplies or alternative suppliers and vendors, increased direct and indirect labor costs, increased costs to protect and maintain the safety of our manufacturing and administrative facilities, and our ability to comply with covenants under our revolving credit agreement.

15. Interest Rate Risk - The Company's line of credit facility may fluctuate in value as a result of the change in market price. 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 March 31, 2021, the annual increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $15,190 (December 31, 2020 - $15,139).

16. Foreign Currency Risk – The Company maintains minimal asset and liability balances in non-U.S. dollar currencies and has deminimus foreign currency exposure.

17. 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 CNO. 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. A 1% change in the price of the investment would have an impact of $3,771 annually. (December 2020 - $4,717).

18. Liquidity Risk – The Company is exposed to liquidity risk due to the borrowings under its revolving line of credit facility and accounts payable and accrued liabilities from operations. This risk is mitigated by complying with the covenants on the line of credit and active cash management. At September 30, 2021 the Company had outstanding borrowings under its $3 million City National Bank revolving line of credit facility in the amount of $1,519,349. In addition, the Company had $399,587 in borrowing related to the Paycheck Protection 2 Program. The Company plans to apply for forgiveness of the Paycheck Protection 2 Program borrowing once our lending institution opens its application window.

18. Liquidity Risk - continued

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

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
September 30, 2021					
Accounts payable and accrued liabilities	$ 468,174	$ -	$ -	$ -	$ 468,174
Paycheck Protection Program 2 loan		399,587			399,587
Bank debt		1,519,349			1,519,349
Total	$ 468,174	$1,918,936	$ -	$ -	$ 2,387,110
December 31, 2020					
Accounts payable and accrued liabilities	$ 576,583	$ -	$ -	$ -	$ 576,583
Bank debt	1,519,349				1,519,349
Total	$ 2,095,932	$ -	$ -	$ -	$ 2,095,932

19. 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 three-month period ended September 30, 2021, the Company had two customers who each accounted for in excess of 10% of revenue, for approximately $1,808,363 or 44% of sales (December 31, 2020 – three customers totaling $3.25 million or 49%) of sales. During the same fiscal period, there were no export sales (December 31, 2020 – nil) to customers in various international countries in excess of 10% of revenue.

The maximum exposure to credit risk is the carrying value of cash, accounts receivable, and due from related parties. The table below provides an analysis of the aging 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
September 30, 2021	**$ 1,079,283**	**$ 610,907**	**$238,209**	**$ 101,361**	**$ 68,054**	**$ 60,752**
December, 2020	$ 976,878	$ 482,596	$ 153,246	$ 29,948	$ 278,011	$ 33,077

Board of Directors

The Company currently has four directors.

New Accounting Policies

On January 1, 2020, the Company adopted the amendment, as issued on October 22, 2018, by the IASB related to IFRS 3, "Business Combinations" ("IFRS 3"), revising the definition of a business and providing for the addition of an optional 'concentration test' to determine if the acquisition is a business. To be considered a business under the amendments to IFRS 3, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The three elements of a business are defined as follows:

- Input – Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process – Any system, standard, protocol, convention or rules that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output – The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional 'concentration test' permits a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may elect to apply, or not apply the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the sets of activities and assets is determined to not be a business and no further assessment is needed. The amendment to IFRS 3 had no effect to the Company for the year ended December 31, 2020.

Subsequent Events

None

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

Forward-Looking Statements – continued

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.