



**Omni-Lite Industries Canada Inc.**  
**Management Discussion and Analysis**  
**For the Three and Nine Months Ended September 30, 2022**

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, 2022. 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 7, 2022.

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 managed as a single business by its chief operating decision-makers. The Company operates three business segments defined as forged, electronic and investment casting components. Through its wholly owned subsidiaries which include Omni-Lite Industries California Inc., Monzite Corporation, Impellimax Inc. and Designed Precision Castings, Inc. (“DP Cast”), 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, Lockheed Martin, Raytheon, Pratt and Whitney, 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.

Omni-Lite Industries Canada Inc. is a recognized precision manufacturer of forged investment casting 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.

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.

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**Selected Consolidated Financial Information**

*All figures are in US dollars except as noted.*

**Summary of Financial Highlights**

	For the three months ended September 30, 2022	For the three months ended September 30, 2021	For the nine months ended September 30, 2022	For the nine months ended September 30, 2021
Revenue	\$3,184,818	\$1,630,801	\$8,025,028	\$4,100,641
Adjusted EBITDA <sup>(1)</sup>	4,177	(65,877)	(857,296)	(458,274)
Net loss	(354,343)	(204,479)	(1,537,582)	(1,006,090)
Diluted EPS	\$ (0.02)	\$ (0.02)	\$ (0.10)	\$ (0.09)
Diluted weighted average shares outstanding	15,412,564	11,333,854	15,412,564	11,333,854
Free Cash Flow <sup>(1)</sup>	(614,878)	(236,177)	(1,353,070)	(456,956)
Adjusted Free Cash Flow <sup>(1)</sup>	(614,878)	(236,177)	(763,759)	(456,956)
Total assets	21,013,232	14,048,026	21,013,232	14,480,026

**Results from Operations for the Three and Nine Months Ended September 30, 2022**

Revenue

For the fiscal three months ended September 30, 2022, Omni-Lite reported revenue of \$3,184,818, an increase of 95% from \$1,630,801 in the fiscal period ended September 30, 2021. For the fiscal nine months ended September 30, 2022, Omni-Lite reported revenue of \$8,025,028, an increase of 96% from \$4,100,641 in the fiscal period ended September 30, 2021. The increase in revenue was principally due to the addition of DP Cast in December of 2021 combined with increases in aerospace fasteners and electronic components.

Cost of Goods Sold

For the three months ended September 30, 2022, cost of goods sold (“COGS”) was \$2,870,925 as compared to \$1,432,158 in the three months ended September 30, 2021, or an increase of 100%. The key drivers of the variance comprised of the inclusion of DP Cast operations that was acquired in late December 2021, an increase in material cost due to sales mix, as well as a slight increase in labor cost. For the nine months ended September 30, 2022, cost of goods sold (“COGS”) was \$7,697,333 as compared to \$3,923,494 in the nine months ended September 30, 2021, or in increase of 96%. COGS in the three months ended September 30, 2022, included non-cash depreciation expense, including lease depreciation of approximately \$281,418 as compared to approximately \$141,483 in the three months ended September 30, 2021. COGS in the nine months ended September 30, 2022, included non-cash depreciation expense, including

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lease depreciation of approximately \$859,666 as compared to approximately \$624,871 in the nine months ended September 30, 2021.

Overhead Expenses

Overhead expenses for the three months ended September 30, 2022, were \$518,800 as compared to \$337,567 for the three months ended September 30, 2021, an increase of \$181,233 or 54%. The majority of the increase is principally due to the acquisition of DP Cast. Stock compensation expense increased by approximately \$8,500. Amortization of intangibles increased approximately \$11,000 due to the acquisition of DP Cast. Overhead expenses for the nine months ended September 30, 2022, were \$1,710,401 as compared to \$1,041,201 for the nine months ended September 30, 2021, an increase of \$669,200 or 64%.

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

For the three months ended September 30, 2022, R&D expense was \$38,840 as compared to \$49,728 in the three months ended September 30, 2021. For the nine months ended September 30, 2022, R&D expense was \$100,759 as compared to \$180,395 in the nine months ended September 30, 2021.

Other Income/Expense:

Interest income was \$16,775 in the three months ended September 30, 2022, compared to \$2,656 the year ago fiscal period. Interest expense was \$144,906 in the three months ended September 30, 2022, as compared with \$26,850 in the three months ended September 30, 2021. All of the interest expense amount was non-cash interest expense associated with IFRS 16 lease accounting as compared to \$13,284 in the three months ended September 30, 2021. In the three months ending September 30, 2021, there was an additional \$13,566 of interest expense associated with borrowings under its revolving line of credit facility. Interest income was \$39,655 in the nine months ended September 30, 2022, compared to \$7,969 the year ago fiscal period. Interest expense was \$433,940 in the nine months ended September 30, 2022, as compared with \$74,452 in the nine months ended September 30, 2021.

Income Tax Provision (Credit):

The income tax provision in the three months ended September 30, 2022, was a credit of \$(17,535) as compared to a credit of \$(8,367) in the three months ended September 30, 2021. The income tax provision in the nine months ended September 30, 2022, was a credit of \$(11,881) as compared to a credit of \$(94,023) in the nine months ended September 30, 2021.

Net Income/(Loss):

Net loss was \$(354,343) in the three months ended September 30, 2022, as compared to net loss of \$(204,479) in the three months ended September 30, 2021. Net loss was \$(1,537,582) in the nine months ended September 30, 2022, as compared to net loss of \$(1,006,090) in the nine months ended September 30, 2021.

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Income/(Loss) Per Share:

Basic loss per share was \$(0.02) in the three months ended September 30, 2022, as compared to \$(0.02) in the three months ended September 30, 2021, based on the weighted average shares outstanding of 15,412,564 compared to 11,333,854 in the three months ended September 30, 2021.

The diluted loss per share was \$(0.10) in the nine months ended September 30, 2022, compared to \$(0.09) in the nine months ended September 30, 2021. At September 30, 2022, the diluted weighted average number of shares was 15,412,564 and 2021 (11,333,854). At September 30, 2022, stock options 1,015,000 (766,000 in 2021) and 1,400,000 (1,200,000 in 2021) 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, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sept 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020
Revenue	\$3,184,818	\$2,460,083	\$2,380,127	\$1,662,224	\$1,630,801	\$1,200,122	\$1,269,718	\$1,284,720
Adjusted EBITDA <sup>(1)</sup>	4,177	(487,224)	(374,249)	(450,037)	(65,877)	(257,582)	(134,815)	(615,708)
Net Income (Loss)	(354,343)	(480,398)	(702,841)	522,993	(204,479)	(447,750)	(353,861)	142,664
EPS (Loss) – Basic	\$(0.02)	\$(0.03)	\$(0.05)	\$0.05	\$(0.02)	\$(0.04)	\$(0.03)	\$0.02
Free Cash Flow <sup>(1)</sup>	(614,878)	(554,752)	(183,440)	(700,683)	(236,177)	(93,464)	(127,315)	220,589
Adjusted Free Cash Flow <sup>(1)</sup>	(614,878)	5,248	(154,129)	(3,777)	(236,177)	(93,464)	(127,315)	220,589

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<sup>(1)</sup> Adjusted EBITDA is a non-IFRS financial measure defined as earnings before interest income, interest expense, taxes, depreciation, amortization, stock-based compensation, gains (losses) on sale of assets, and non-recurring items, if any. Free Cash Flow is a non-IFRS financial measure defined as cash flow from operations minus capital expenditures. Adjusted Free Cash Flow is a non-IFRS financial measure defined as Free Cash Flow excluding, if any, gains (losses) on sale of assets, and non-recurring items. 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, Free Cash Flow and Adjusted 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, Free Cash Flow and Adjusted Free Cash Flow are also useful tools 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, Free Cash Flow and Adjusted Free Cash Flow internally to evaluate the operating performance of the Company, to allocate resources and capital, and to evaluate future growth opportunities.

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The components of Free Cash Flow and Adjusted Free Cash Flow on a 9-month basis are as follows:

	<b>For the nine months ended September 30, 2022</b>	For the nine months ended September 30, 2021
Cash flow from operating activities	<b>\$ (918,455)</b>	\$ (414,456)
Purchase of property, plant and equipment	<b>(434,615)</b>	(42,500)
Free Cash Flow	(1,353,070)	(456,956)
Non-recurring items	<b>589,311</b>	
Adjusted Free Cash Flow	<b>\$ (763,759)</b>	\$ (456,956)

Non-recurring items included on a nine-month basis ended September 30, 2022, include one-time acquisition costs related to the purchase of DP Cast as well as a one-time tax payment related to the sale of the Cerritos Facility.

### **Liquidity and Capital Resources**

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

	<b>For the nine months ended September 30, 2022</b>	For the nine months ended September 30, 2021
Net cash from (used) in operating activities	<b>\$ (918,455)</b>	\$ (414,456)
Net cash (used) from in financing activities	<b>477,352</b>	283,079
Net cash from(used) in investing activities	<b>(434,615)</b>	(44,406)
Translation gain (loss)	<b>(104,727)</b>	-
Net increase (decrease) in cash	<b>\$ (980,445)</b>	\$ (175,783)
Cash at the beginning of the period	<b>\$ 2,418,301</b>	\$ 1,542,405
Cash at the end of the period	<b>\$ 1,437,856</b>	\$ 1,366,622

### **Cash Flows from Operations**

For the nine months ended September 30, 2022, cash flow from operations was a use of \$(918,455) as compared to a use of \$(414,456) in the nine months ended September 30, 2021. Net income for the nine months ended September 30, 2022, after non-cash items was a use of approximately \$(322,402), as compared to a use of \$(388,701) in the nine months ended September 30, 2021. We used approximately \$(596,053) for working capital in the nine months ended September 30, 2022, as compared to a use of \$(25,755) in the nine months ended September 30, 2021.

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Cash Flows from Financing Activities

Cash from financing activities was a source \$477,352 in the nine months ended September 30, 2022, as compared to a source of \$283,079 for the nine months ended September 30, 2021. In the nine months ended September 30, 2022, the Company used approximately \$614,760 for lease payments and entered a lease of approximately \$97,229 for the purchase of manufacturing equipment and generated proceeds of approximately \$985,883 from the sale of 1.0 million shares of common stock in a private placement transaction. In the nine months ended September 30, 2021, the Company received approximately \$399,587 in proceeds from the Paycheck Protection 2 Program, which were forgiven in December 2021 and used approximately \$125,508 for lease payments.

Cash Flow from Investing Activities

The Company used approximately \$(434,615) for process improvement manufacturing equipment in the nine months ended September 30, 2022 at all three manufacturing locations. In the nine months ended September 30, 2021, the Company used \$(42,500) for capital expenditures as well as had a retirement of \$(1,906).

The Company's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, and access to Paycheck Protection Program funding under the U.S. government CARES Act in 2021. Under the CARES Act, the Company borrowed \$399,587 in the fiscal year ended 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 \$399,587 loan borrowed has been forgiven.

The Company maintains a \$3.0 million revolving credit line with City National Bank (the "Credit Agreement") with no outstanding borrowings at September 30, 2022. 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. At March 31, 2021, the Company received a waiver for its debt service covenant.

The Company has leases for manufacturing and office space at its two manufacturing locations. One lease, expiring in March 2021, was renewed through March 2026. In December 2021, the Company sold its building located in Cerritos, California in a sale-leaseback transaction. The lease is for a period of 10 years with a 10-year renewal option. The Company recognized a lease liability of \$4,054,405 and a gain on sale of \$1,767,177. The Company prepaid \$292,631 of rent payments, which have been excluded in the measurement of the lease liability. The proceeds were used to repay the Company's bank indebtedness and for the acquisition of DP Cast.

The proceeds from the sale-leaseback transaction were used to repay the borrowings under the Company's Credit Agreement and for the acquisition of DP Cast. 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 \$219,235. In the

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first half of 2022, the Company entered into a lease to purchase equipment in the amount of \$97,229.

The Company's lease liabilities at September 30, 2022 and September 30, 2021 are as follows:

	<b>September 2022</b>	September 2021
Opening balance January 1	<b>\$ 6,537,256</b>	\$ 90,535
Lease addition	<b>97,229</b>	595,777
Lease payments	<b>(614,760)</b>	(125,508)
Interest on lease liability	<b>434,922</b>	34,189
Currency Translation	<b>(144,790)</b>	
Lease liability end of period	<b>\$ 6,309,857</b>	\$ 594,993
Less current portion	<b>323,393</b>	102,126
Long term portion	<b>\$ 5,986,464</b>	\$ 492,867

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

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

<b>Location</b>	<b>Type</b>	<b>Liability</b>	<b>Expires</b>	<b>Entered/ Renewed</b>
Cerritos, California	Manufacturing and office	\$ 4,073,144	December 2031 with a 10-year extension option which management expects to exercise	Entered December 2021
Cerritos, California	Warehouse	284,761	June 2026	Renewed June 2021
Brampton, Ontario	Manufacturing and office	1,664,087	December 2026 with a 5- year extension option which management expects to exercise	Entered December 2021
Nashua, New Hampshire	Manufacturing and office	213,753	March 2026	Renewed March 2021
Brampton, Ontario	Equipment purchase	74,112	February 2026	Entered February 2022
		<b>\$ 6,309,857</b>		



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

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

Future minimum lease payments are as follows:

2022	\$ 206,393
2023	890,257
2024	890,046
2025	902,591
2026	785,787
2027-2031	<u>3,493,750</u>
Total	<b>\$7,168,824</b>

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**Related Party Transactions and Balances**

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

	<b>September 30, 2022</b>	December 31, 2021
California Nanotechnologies:		
i. A loan receivable including accrued interest in the amount of \$1,252,469 which is due on demand. Of this amount, \$1,261,936 accrues interest at 7.5% per annum. The loan is secured by all the assets of California Nanotechnologies Corp., a subsidiary of California Nano. This loan receivable is fully reserved.	\$ -	\$ -
ii. The Company has provided a guarantee on the bank debt held by California Nanotechnologies Corp. The bank debt consists of a term loan was \$nil as of September 2022 (\$143,000 at December 31, 2021).		
iii. On March 31, 2020, the bank called California Nanotechnologies' line of credit of \$250,000, which was guaranteed by the Company. Omni-Lite repaid this amount on their behalf and has a loan receivable with interest at the prime rate plus 1% from California Nanotechnologies Corp. This amount has been fully reserved.		
Has an unsecured interest free loan receivable from an employee forgiven after five years of service time, related to the acquisition of property with a maturity date in 2022.	<b>20,000</b>	20,000
Provided four grants (December 31, 2020– four) related to the purchases of hybrid/electric cars under the Company's <i>Greenhouse Gas Reduction Incentives for Employees</i> program in the amount of \$5,000 each. The two grants mature in 2023.	<b>10,000</b>	10,000
Reserve for earned grants	<b>(25,000)</b>	(16,000)
Total due from related parties	<b>\$ 5,000</b>	\$ 14,000
Current portion	-	-
Long-term portion	<b>\$ 5,000</b>	\$ 14,000

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**Outstanding Share Capital**

As of September 30, 2022:

- 15,412,564 Common Shares issued and outstanding
- 1,015,000 Share Options outstanding – 383,328 exercisable
- 1,400,000 Warrants outstanding - 492,500 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.

The current ratio defined as the current assets divided by current liabilities at September 30, 2022, was 4.6, as compared to 3.6 at December 31, 2021. On December 31, 2021, the Line of Credit borrowing were classified as a current liability.

**Segment Information**

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

	United States	Canada	Total
<b>For the nine months ended September 30, 2022</b>			
<b>Revenue</b>	\$ 5,087,656	\$ 2,937,372	\$ 8,025,028
<b>Net loss</b>	(371,808)	(1,165,774)	(1,537,582)
<b>Long term assets</b>	6,306,422	6,652,588	12,959,010
For the nine months ended September 30, 2021			
Revenue	\$ 4,100,641	\$ -	\$ 4,100,641
Net loss	(824,034)	(182,056)	(1,006,090)
Long term assets	7,045,546	1,696,402	8,741,948

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**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.

	<b>September 30, 2022</b>		December 31, 2021	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<b>At FVTPL</b>				
Cash	\$ 1,437,856	\$ 1,437,856	\$ 2,418,301	\$ 2,418,301
<b>At FVOCI</b>				
Investment	350,476	350,476	426,288	426,288
<b>At Amortized cost</b>				
Accounts receivable	2,497,600	2,497,600	2,352,189	2,352,189
Due from related parties	5,000	5,000	14,000	14,000
Accounts payable and accrued liabilities	1,390,842	1,390,842	1,889,565	1,889,565
Finance guarantee liability	-	-	-	-
Bank indebtedness	-	-	-	-

The carrying values of accounts receivable, accounts payable and accrued liabilities 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.

Of particular significance is the fact that Omni-Lite has received ten (10) patents.

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## **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.
6. Employee Costs – The cost of labor may increase, as competition for qualified employees in the Southern California, New England, and Brampton Ontario areas is generally strong. Labor

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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.
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.

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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 of September 30, 2022, and December 31, 2021, the Company had no borrowing and no interest rate risk.
16. Foreign Currency Risk - The Company has foreign currency exposure through its DP Cast subsidiary which has a functional currency of Canadian dollars. The Company manages its foreign currency risk through natural hedges of its current asset and current liability positions where possible.
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 \$4,806 annually. (December 2021 - \$4,717).
18. Liquidity Risk – The Company had \$1,437,856 in cash on hand at September 30, 2022 and had no borrowing at September 30, 2022 or December 31, 2021. If the Company should need additional liquidity, it would pursue asset-based lending secured by its assets.

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

	≤ 1 year	> 1 year ≤ 3 years	> 3 years ≤ 4 years	> 5 years	Total
<b>September 30, 2022</b>					
Accounts payable and accrued liabilities	\$ 1,390,842	\$ -	\$ -	\$ -	\$ 1,390,842
Bank debt		-			-
<b>Total</b>	<b>\$ 1,390,842</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,390,842</b>
<b>December 31, 2021</b>					
Accounts payable and accrued liabilities	\$ 1,889,565	\$ -	\$ -	\$ -	\$ 1,889,565
Bank debt	-				-
<b>Total</b>	<b>\$ 1,889,565</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,889,565</b>

19. Credit Risk – The Company manages credit risk over cash by maintaining its bank accounts with large financial institutions. The Company manages credit risk over accounts receivable by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the three months ended September 30, 2022, the Company had one customer who each accounted for in excess of 10% of revenue for approximately \$473,000 or 15% of sales (December 31, 2021 – two customers totaling \$2,415,000 million or 42% of sales). The maximum exposure to credit risk is the carrying value of cash, account receivable and due from related parties. The table below provides an analysis of the age of accounts receivable which are not considered impaired.

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	<b>Total</b>	<b>≤ 30 days</b>	<b>&gt; 30 days ≤ 60 days</b>	<b>&gt; 60 days ≤ 90 days</b>	<b>&gt; 90 days</b>
<b>September 30, 2022</b>	<b>\$ 2,497,600</b>	<b>\$ 1,708,598</b>	<b>\$ 404,850</b>	<b>\$ 201,425</b>	<b>\$ 182,727</b>
December 31, 2021	\$ 2,352,189	\$ 1,541,341	\$ 602,853	\$ 119,117	\$ 88,878

### **Board of Directors**

The Company has five directors.