Omni-Lite Industries Canada Inc.
Management Discussion and Analysis
For the year ended December 31, 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 twelve months ended December 31, 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 May 2, 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 Industries Canada Inc. is a recognized precision manufacturer of forged, electronic and investment casting 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.

On December 20, 2021, Omni-Lite acquired 100% of the shares of Designed Precision Castings, Inc. ("DP CAST"). DP CAST maufactures investment casted parts for a variety of applications in the defense, aerospace, military, oil and gas drilling industries. DP CAST addressese the same markets with complementary mission and capabilities; specialized performance and strong and durable solutions to high spedification customer needs.

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., 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, 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.

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.

On December 20, 2021, the Company acquired 100% of the issued and outstanding shares of Design Precision Castings, Inc. ("DP Cast") in exchange for 3,078,710 shares valued at $2,061,663. In addition, the Company paid $2,952,498 of bank indebtedness, $332,865 in cash and $174,468 related to a working capital adjustment. The working capital adjustment was recorded in accounts payable at December 31, 2021 and was settled subsequent to year end. DP Cast designs and manufactures investment castings for aerospace, defense, oil and gas and other commercial applications.

The primary reason for the acquisition of DP CAST was due to its growth potential.

The Company has made a determination of the fair value of the tangible and intangible assets acquired and liabilities assumed in the acquisition.

The total purchase price and fair value of assets and liabilities acquired is as follows:

Consideration paid:		
Cash paid for bank indebtedness	$	2,952,498
Cash paid		332,865
Working capital adjustment		174,468
Shares issued		2,061,663
Total consideration paid	$	5,521,494
Assets (liabilities) assumed		
Cash	$	1,378
Accounts receivable		1,175,458
Other Receivables		305,514
Inventory		1,246,510
Prepaid expenses and other assets		43,505
Property, plant and equipment		2,405,418
Right of use asset		2,430,986
Customer relationships		264,674
Goodwill		496,808
Accounts payable and accrued liabilities		(984,929)
Building lease liability		(1,863,828)
Fair value of net assets	$	5,521,494

The goodwill was attributable mainly to the expected synergies and future income and growth expected to be achieved from integrating DP CAST into the Company's existing business.

The purchase price allocation included an inventory fair value adjustment of $369,729 At the acquisition date, the fair value of the acquired receivables approximated the carrying value and there was no provision for expected credit losses.

Revenue and net loss of DP CAST included in the consolidated statements of loss and comprehensive loss from the acquisition date is $68,074 and $77,709, respectively. The net loss included a non-cash finished good mark to market charge in cost of sales of $45,000.

Had the acquisition occurred on January 1, 2021, the revenue and net loss would have been approximately $4,047,000 and $1,813,000, respectively.

Transaction costs included in the consolidated statements of loss and comprehensive income loss were approximately $404,000. Cypress Associates, LLC ("Cypress") served as investment advisor for the purchase of DP CAST. A board member of the Company is a principle in Cypress. Cypress received $125,000 and 200,000 stock warrants valued at $79,206 using the Black-Scholes method. The warrants have an exercise price of CAD$0.95, are exercisable immediately and have a five-year life.

Selected Consolidated Financial Information

All figures are in US dollars except as noted.

Summary of Financial Highlights

	For the year ended December 31, 2021	For the year ended December 31, 2020	% Increase (Decrease)
Revenue	**$5,762,864**	$6,683,776	(14%)
Adjusted EBITDA[1]	**(908,313)**	(833,184)	45%
Net loss	**(483,097)**	(618,092)	21%
Diluted EPS	**$ (0.04)**	$ (0.05)	20%
Diluted weighted average shares outstanding	**11,435,072**	11,333,854	-
Adjusted Free cash flow [1]	**(460,733)**	(18,884)	N/A
Total assets	**23,158,647**	14,850,274	56%

Results from Operations for the Year Ended December 31, 2021

Revenue

For the year ended December 31, 2021, Omni-Lite reported revenue of $5,762,864, as compared to $6,683,776 in the year ended December 31, 2020 and decrease of approximately $921,000 or 14%. Increases in microwave electronics and automotive sales were more than offset by decreases in military and aerospace sales as a result of the Covid 19 pandemic.

Cost of Goods Sold

For the year ended December 31, 2021, cost of goods sold ("COGS") was $5,780,676 as compared to $6,651,297 in the year ended December 31, 2020, or a decrease of approximately $871,000 or 14%. The reduction was due to lower depreciation expense of approximately $283,000 reduced payroll resulting from manufacturing efficiencies of approximately $230,000

The remainder of the improvement was due to a combination of lower costs associated with lower sales and other manufacturing efficiencies. Manufacturing cost did not reduce further due to the high fixed cost structure of manufacturing operations.

Overhead Expenses

Overhead expenses for the year ended December 31, 2021 were $1,914,210 as compared to $1,567,316 for the year ended December 31, 2020, an increase of $346,894 or 21% Approximately $470,000 was due to expenses associated with the acquisition of Designed Precision Castings Inc., of which approximately $79,000 was warrant compensation expense. Other stock compensation expense decreased by approximately $59,000, Amortization of intangibles increased by approximately $3,000 as a result of the acquisition of DP CAST and other SG&A spending decreased by approximately $67,000.

Research and Product Design (“R&D”) Expense:

For the year ended December 31, 2021, R&D expense was $224,058 as compared to $277,728 in the year ended December 31, 2020. The decrease was due to the completion in 2020 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 $10,625 in the year ended December 31, 2021, compared with $7,969 in the year ended December 31, 2020. Interest expense was $119,059 in the year ended December 31, 2021 as compared with $68,021 in the year ended December 31, 2020. Of this amount, $67,440 was non-cash interest expense associated with IFRS 16 lease accounting as compared to $13,700 in the year ended December 31, 2020. The remaining $51,619 ($54,321 in 2020) of interest expense was associated with borrowings under its revolving line of credit facility.

In 2021 the Company applied for and received $399,587 ($819,700 in 2020) in loans from the paycheck protection program under the CARES act. These amounts have been forgiven and recorded as other income.

In 2021 the Company retired fixed asets and recorded a loss on disposition of approximately $20,000. In the third quarter of the year ended December 31, 2020, the Company implemented a restructuring program and recorded severance expense of approximately $55,000. The annualized expense savings associated with this restructuring is approximately $1.1 million.

In December of 2021, the Company sold land and building and entered into a leaseback for 10 years with an option to renew for an additional 10 years. Net proceeds after transaction costs were approximately $6.578 million. Because the Company entered into a leaseback agreement, a portion of the gain was allocated to the lease liability resulting in a recognized gain of $1.767 million.

At December 31, 2021 and 2020, as a result of the Company's market capitalization being less than its net assets, the Company performed an impairment test on the Omni-Lite CGU at December 31, 2020 based on FVLCD analysis. It was determined that no impairment exists as the recoverable amount exceeded the carrying amount of the CGU.

Goodwill of $407,170 has been allocated to the Monzite CGU. The Company performed its impairment test at December 31, 2021 and the recoverable amount of the Monzite CGU was determined based on a VIU calculation using the following key assumptions:

- 3-year (2020 – 3 year) cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 3 years used a terminal growth rate of 2%;
- Forecasted revenue at an average growth rate of 13% (2020 – 8%);
- Average forecasted EBITDA margin of 19% (2020 – 18%); and,
- Cash flows were discounted at an after-tax discount rate of 20% (2020 – 24%) based on the Company's weight average cost of capital and risks specific to the particular CGU.

As a result of the impairment test performed, the recoverable amount exceeds the carrying amount by approximately $50,000 (2020 - $100,000), and therefore, did not result in an impairment.

The most sensitive inputs to the VIU model are the forecasted EBITDA and discount rate. All else being equal:

- A 1% increase in the discount rate would result in an impairment of $50,000; and,
- A 1% decrease in the average forecasted EBITDA would result in an impairment of $24,000.

Goodwill of $496,808 has been allocated to the DP Cast CGU. The Company performed its impairment test at December 31, 2021 and the recoverable amount of the DP Cast CGU was determined based on a FVLCD calculation using the following key assumptions:

- 5-year cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 5 years used a terminal growth rate of 3%;
- Forecasted revenue at an average growth rate of 18%;
- Average forecasted EBITDA margin of 11%; and,
- Cash flows were discounted at an after-tax discount rate of 17% based on the Company's weight average cost of capital and risks specific to the particular CGU.

As a result of the impairment test performed, the recoverable amount exceeds the carrying amount by approximately $46,000, and therefore, did not result in an impairment.

The most sensitive inputs to the FVLCD model are the forecasted EBITDA and discount rate. All else being equal:

- A 1% increase in the discount rate would result in an impairment of $157,000; and,

- A 1% decrease in the average forecasted EBITDA would result in an impairment of $153,000.

Income Tax Provision (Credit):

The income tax provision in the year ended December 31, 2021 was $365,028 as compared to a credit of $(618,092) in the year ended December 31, 2020. The expense in 2021 was related to the gain on sale of the Company's land and building. The gain was partially sheltered by deferred tax losses associate with net operating loss carryforward amounts. The credit for the year ended December 31, 2020 was related to the Company's net loss for the year

Net Income/(Loss):

Net loss for the year ended December 31, 2021 was $483,097 as compared to a net loss of $618,092 in the three months ended December 31, 2020.

Income/(Loss) Per Share:

Basic loss per share was $(0.04) in the year ended December 31, 2021 as compared to ($0.05) in the year ended December 31, 2020 based on the weighted average shares outstanding of 11,435,072 in 2021 and 11,333,854 in 2020.

The diluted loss per share was $(0.04) in the year ended December 31, 2021, compared to ($0.05) in the year ended December 31, 2020. At December 31, 2021, the diluted weighted average number of shares outstanding was 11,435,072 (11,333,854 in 2020). 1,046,000 (727,667 in 2020) stock options and 1,400,000 (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.*

	Dec 31, 2021	Sept 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020
Revenue	**$1,662,224**	$1,630,801	$1,200,122	$1,269,719	$1,284,720	$1,630,536	$1,623,650	$2,144,870
Adjusted EBITDA(1)	**(450,037)**	(65,877)	(257,582)	(134,815)	(615,708)	(271,539)	(142,622)	196,683
Net Income (Loss)	**522,993**	(204,479)	(447,750)	(353,861)	142,664	(410,265)	(263,414)	(87,077)
EPS (Loss) - Basic	**$0.05**	$(0.02)	$(0.04)	$(0.03)	$0.02	$(0.04)	$(0.02)	$(0.01)
EPS(Loss) - Diluted	**$0.05**	$(0.02)	$(0.04)	$(0.03)	$0.02	$(0.04)	$(0.02)	$(0.01)
Adjusted Free Cash Flow (1)	**(3,777)**	(236,177)	(93,464)	(127,315)	220,589	(216,730)	321,042	(346,785)

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 year ended December 31 are as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Net (loss)	**$ (483,097)**	$ (618,092)
Add:		
Depreciation	**775,335**	1,055,008
Amortization of intangibles	**78,121**	74,667
Share-based compensation	**121,963**	114,637
Cash transaction expenses associated with acquisition	**404,275**	
Mark to market adjustment	**34,807**	
Accounts receivable recovery associated with loan receivable write-off	**(7,304)**	(34,189)
Repayment of lease liability	**(159,430)**	(230,741)
Severance expense	-	55,160
Interest expense	**119,059**	68,021
Interest income	**(10,625)**	(7,969)
Other expense(income)	**20,319**	-
(Recovery) Provision for income tax	**365,028**	(489,986)
PPP loan forgiveness	**(399,587)**	(819,700)
Gain on sale of land & building	**(1,767,177)**	
Adjusted EBITDA [1]	**$ (908,313)**	$ (833,184)

The components of Adjusted Free Cash Flow [1] for the year ended December 31 are as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Cash flow from operating activities	**$ (827,190)**	$ 4,966
Purchase of property, plant and equipment	**(330,449)**	(23,850)
Free Cash Flow	**$ (1,157,639)**	$ (18,884)
Capitalized rent expense	**292,631**	-
Acquisition Costs	**404,275**	
Adjusted Free Cash Flow	**$ (460,733)**	$ (18,884)

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

	December 31, 2021	December 30, 2020
Net (loss)	**$ (483,097)**	$ (618,092)
Add:		
Depreciation	**775,335**	1,055,008
Amortization of intangibles	**78,121**	74,667
Stock & warrant-based compensation	**121,963**	114,637
Cash transaction expenses associated with acquisition	**404,275**	
Mark To market adjustment	**34,807**	
Accounts receivable reserve associated with loan receivable write-off	**(7,304)**	(34,189)
Repayment of lease liability	**(159,430)**	(230,741)
Severance expense	**–**	55,160
Interest expense	**119,059**	68,021
Interest income	**(10,625)**	(7,969)
Other expense(income)	**20,319**	-
(Recovery) Provision for income tax	**365,028**	(489,986)
PPP loan forgiveness	**(399,587)**	(819,700)
Gain on sale of land & building	**(1,767,177)**	
Adjusted EBITDA [(1)]	**$ (908,313)**	$ (833,184)

Liquidity and Capital Resources

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

	For the year ended December 31, 2021	For the year ended December 31, 2020
Net cash (used) provided by operating activities	**$ (827,190)**	$ 4,966
Net cash provided from financing activities	**5,325,275**	1,118,044
Net cash used in investing activities	**(3,614,434)**	(273,850)
Translation gain (loss)	**(7,755)**	
Net increase in cash	**$ 875,896**	$ 849,160
Cash at the beginning of the period	**$ 1,542,405**	$ 693,245
Cash at the end of the period	**$ 2,418,301**	$ 1,542,405

Cash Flows from Operations

For the year ended December 31, 2021, cash flow from operations was a use of $827,190 as compared to a source of $4,966 in the year ended December 31, 2020. The 2021 use of $827,190 includes approximately $404,000 of transaction costs related to the acquisition of DP CAST and approximately $293,000 associated with capitalized lease payments. A decrease in inventory generated approximately $500,000 in cash from operations. In 2020 the Company reduced inventory by approximately $611,000. This brings the two year total reduction in inventory to approximately $1.1 million. This amount was offset by an increase in inventory as a result of the acquisition of DP CAST. In 2021, accounts receivable increased by approximately $166,000 due to the timing of shipments within the fourth quarter. This was offset by an increase in accounts payable and accrued liabilities of approximately $102,000 due to the timing of payments in the fourth quarter. Sales declined approximately $921,000 or 14% as compared to 2020 which adversely cash flow from operations. This was exacerbated by the decrease in inventory resulting in lost absorption of cost into inventory. Manufacturing costs did not reduce further due to the high fixed cost nature of the manufacturing operation.

For the year ended December 31, 2020, the Company generated $4,966 from operations. Net loss adjusted for non-cash items for the year ended December 31, 2020 was approximately $712,000. The loss was due to a reduction in sales as compared to 2019 of approximately 28% as a result of the COVID-19 pandemic. In addition, the Company generated approximately $717,000 in cash from reductions in working capital including a reduction in inventory of approximately $611,000, a reduction in accounts receivable of approximately $412,000 offset by an increase in accounts payable and prepaid expenses of approximately $306,000.

Cash Flows from Financing Activities

Cash provided by financing activities was $5,325,000 in the year ended December 31, 2021, as compared to approximately $1,118,000 for the year ended December 31, 2020. In the year ended December 31, 2021, the Company received approximately $400,000 in proceeds from the Paycheck Protection 2 program and generated approximately $6,578,000 in proceeds from the sale of its land and building in Cerritos California. The Company subsequently entered into a sale and leaseback agreement for the facility. The Company used approximately $1,519,000 of the proceeds to pay off its outstanding line of credit balance. Additionally the Company made approximately $159,000 in payments under its operating lease agreements.

In 2020, the Company borrowed approximately $517,000 against its line of credit facility and used $250,000 of that amount to pay a finance guarantee loan obligation. In addition, the Company received approximately $820,000 in Paycheck Protection Program 1 funding. Lastly, the Company amortized lease liability payments of approximately $231,000.

Cash Flow from Investing Activities

In the year ended December 31, 2021, the Company used approximately $3,300,000 to purchase DP CAST and investment casting company. The Company used approximately $293,000 to prepay lease payments under its Cerritos land and building lease and used approximately $37,000 net of retirements and related proceeds to purchase equipment.

In the year ended December 31, 2020, the Company used $23,850 for capital expenditures. In the year ended December 31, 2020, the Company made a $250,000 payment for a line of credit agreement it had guaranteed on behalf of California Nanotechnologies, Inc. (“CalNano”) when CalNano’s bank called the loan.

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 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 the full amounts of both loans have been forgiven. Accordingly, these amounts have been recorded as income.

The Company has a three-year, $3.0 million revolving credit line with City National Bank, an RBC Company, which expires on December 31, 2022 (the "Credit Agreement"). Interest under the revolving line of credit accrues at the prime rate. The Credit Agreement is secured by the Company's accounts receivable, inventory, property, plant and equipment, and general intangibles. The agreement includes certain conditions and financial covenant ratios including, loan to value, net worth and debt service. In December 2021 the Company sold land and building which served as collateral for the line of credit. The Company paid off the full line of credit balance as part of the sale of the land and building. At December 31, 2021, the loan balance was zero. (December 31, 2020 - $1,519,349). The Company will not be able to draw funds on the line of credit until a re-assessment is undertaken by the bank. No such re-assessment has been initiated at this time. Interest expense of $51,619 (2020 - $54,321) related to the Company's line of credit line has been recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021. In addition, the Company recorded $67,440 (2020 - $13,700) of lease interest expense.

During 2021, the Company applied for and received $399,587 of funding under the Paycheck Protection 2 Program. During 2020, the Company applied for and received $819,700 in loans under the CARES Act. Both loans were fully forgiven and have been included as Loan forgiveness in the statements of loss and comprehensive loss.

The Company's lease liabilities are as follows:

		2021		2020
Opening balance January 1	**$**	**90,535**	$	308,237
Lease modifications		**595,759**		
Lease addition		**4,054,465**		-
Leases acquired through DP CAST acquisition		**1,863,828**		
Lease payments		**(159,430)**		(231,402)
Lease Interest		**67,440**		13,700
Currency translation		**24,659**		
Lease liability end of period		**6,537,256**		90,535
Less current portion		**239,445**		90,535
Long term portion	**$**	**6,297,811**	$	-

During 2021, the leases for a warehouse in California and the manufacturing office in New Hampshire were amended and extended for an additional five-year period. The lease amendments were considered lease modifications, with the remeasured lease liability and associated right of use asset balances each increasing by $595,759.

In December 2021, the Company sold its building located in Cerritos California in a sale leaseback transaction. The lease is for a period of 10 years with a 10-year renewal option. The Company recognized a lease liability of $4,054,405 and a gain on sale of $1,767,177. The Company prepaid $292,631 of rent payments which have been excluded in the measurement of the lease liability. The proceeds were used to repay the Company's bank indebtedness and for the acquisition of DP CAST.

The Company has entered into leases for its manufacturing and office space at its three manufacturing locations and one equipment purchase lease. A summary of leases is as follows;

Location	**Type**	**Liability**	**Expires**	**Entered/ Renewed**
Cerritos, California	Manufacturing and office	$ 4,069,670	December 2031 with a10 year extension option which management expects to exercise	Entered December 2021
Cerritos, California	Warehouse	327,606	June 2026	Renewed June 2021
Brampton, Ontario	Manufacturing and office	1,852,559	December 2026 with a 5 year extension option which management expects to exercise	Entered December 2021
Nashua, New Hampshire	Manufacturing and office	246,750	March 2026	Renewed March 2021
Brampton, Ontario	Equipment purchase	40,671	October 2022 and October 2023	Entered December 2021
		$ 6,537,256		

The discount rate applied to these leases is 9%. All of the above leases were entered into or renewed in 2021. Additionally, the Company is responsible for all building operating costs including real estate taxes and insurance. These costs are recorded in operating expenses.

The current ratio defined as the current assets divided by current liabilities at December 31, 2021 was 3.6, as compared to 2.7 at December 31, 2020.

Transactions with Related Parties

	December 31, 2021	December 31, 2020
California Nanotechnologies:		
i. A loan receivable including accrued interest in the amount of $1,195,600 which is due on demand. Of this amount, $1,186,131 accrues interest at 2.89% per annum. The loan was secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. This loan receivable is fully impaired.	**$ -**	$ -
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 $143,000 ($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 two 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 $5,000 each. One grant outstanding matures in 2021, one grant matures in 2022 and two grants mature in 2023.	**10,000**	20,000
Reserve for earned grants	**(16,000)**	(14,000)
Total due from related parties	**$ 14,000**	$ 26,000
Current portion	**-**	-
Long-term portion	**$ 14,000**	$ 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
Designed Precision Castings Inc. (Ontario, Canada)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada, Inc, which was acquired on December 20, 2021. It designs, and contract manufactures investment castings.	United States, Canada

Outstanding Share Capital

As of December 31, 2021:

- 14,412,564 Common Shares issued and outstanding. Of these shares 1,440,000 are held in escrow until December 20, 2023 as collateral for any tru-up issues associated with the acquisition of DP CAST.
- 1,046,000 Share Options outstanding – 464,328 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.

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	Total
For the year ended December 31, 2021			
Revenue	**$ 5,694,790**	**$ 68,074**	**$ 5,762,864**
Net income loss	**334,920**	**(808,017)**	**(483,097)**
Long term assets	**7,752,923**	**6,079,909**	**13,832,832**
For the year ended December 31, 2020			
Revenue	$ 6,683,776	$ -	$ 6,683,776
Net loss	(291,744)	(326,348)	(618,092)
Long term assets	8,427,705	471,720	8,899,425

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.

	December 31, 2021		December 31, 2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 2,418,301**	**$ 2,418,301**	$ 1,542,405	$ 1,542,405
At FVOCI				
Investment	**426,288**	**426,288**	471,720	471,720
At Amortized cost				
Accounts receivable	**2,352,189**	**2,352,189**	976,878	976,878
Due from related parties	**14,000**	**14,000**	26,000	26,000
Accounts payable and accrued liabilities	**1,889,564**	**1,889,564**	576,582	576,582
Finance guarantee liability	**-**	**-**	-	-
Bank indebtedness	**-**	**-**	1,519,349	1,519,349

Financial Instruments - continued

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	$ 2,418,301	$ 2,418,301	$ -	$ -
Investment	426,288	426,288	-	-

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

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

The carrying value of the Company's due from related parties approximate their fair values due to the amounts being due on demand, and the carrying value of bank indebtedness approximates fair value due to a market rate of interest being charged.

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

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, New England and Ontario areas are 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 December 31, 2021, the annual increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to nil (December 31, 2020 - $15,139).

    Foreign Currency Risk – The Company has foreign currency exposure through its Designed Precision Casting, Inc 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.

16. 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 $4,263 annually. (December 2020 - $4,717).

17. 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 December 31, 2021 the Company no outstanding borrowings under its $3 million City National Bank revolving line of credit facility ($1,519,349 in 2020).

Risk Factors - continued

17. 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
December 31, 2021					
Accounts payable and accrued liabilities	$ 1,889,564	$ -	$ -	$ -	$ 1,889,564
Total	$ 1,889,564	$ -	$ -	$ -	$ 1,889,564
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

18. 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 year ended December 31, 2021, the Company had two customers who each accounted for in excess of 10% of revenue, for approximately $2,414,625 or 42% 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	≤ 30 days	> 30 days ≤ 60 days	60 days ≤ 90 days	> 90 days
December 31, 2021	**$ 2,352,189**	**$ 1,541,341**	**$ 602,853**	**$ 119,117**	**$ 88,878**
December 31, 2020	$ 976,878	$ 635,842	$ 29,948	$ 278,011	$ 33,077

Board of Directors

The Company currently has five 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, 2021.

Subsequent Events

On February 2, 2022, the Company issued 1,000,000 shares of common stock in a private placement to an affiliate of the sellers of Designed Precision Castings, Inc. The shares were issued at CAD$ 1.25 per share.

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

Forward-Looking Statements – continued

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.