Omni-Lite Industries Canada Inc.
Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(in United States Dollars)

Contents

To the Shareholders of Omni-Lite Industries Canada Inc.:

Opinion

We have audited the consolidated financial statements of Omni-Lite Industries Canada Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of the Recoverable Amount of Goodwill

Key Audit Matter Description

We draw attention to Notes 2 and 7 to the consolidated financial statements. As at December 31, 2022, the Company has goodwill recorded of $878,375. Goodwill is required to be tested for impairment annually, and an impairment loss is recognized if the carrying amount of the cash generating unit ("CGU" or "CGUs") exceeds its recoverable amount. Management has determined the recoverable amount of the CGUs based on their value-in-use, which incorporates the following significant assumptions:

- Future cash flows based on forecasted earnings before interest, tax, depreciation and amortization
- Revenue growth rate
- Discount rate

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We considered the recoverable amount of the Company's Monzite and Design Precision Casting CGUs as a key audit matter due to the significant judgment used by management in determining the recoverable amount of the CGUs. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing procedures in relation to the assessment of the recoverable amount of goodwill. Our audit work in relation to this included, but was not restricted to, the following:

- We performed a retrospective review by comparing management's prior year expected future cash flows to the actual results, to assess the Company's ability to accurately forecast.
- We evaluated the reasonableness of the future cash flow projections used to calculate each CGU's recoverable amount by comparing the estimated cash flows to historical results and by comparing certain assumptions used in the future cash flow projections to market data.
- We verified the mathematical accuracy of management's impairment model and supporting calculations.
- We performed a sensitivity analysis on key inputs used in the future cash flow projections.
- We involved our internal valuation specialists to evaluate the appropriateness of the discount rate used.
- We assessed the appropriateness of the disclosures relating to the goodwill in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta

MNP LLP

April 19, 2023

Chartered Professional Accountants

Omni-Lite Industries Canada Inc.
Consolidated Statements of Financial Position
For the years ended December 31, 2022 and 2021
United States Dollars

	Note		As at December 31, 2022		As at December 31, 2021
Assets					
Current					
Cash		$	1,328,430	$	2,418,301
Accounts receivable			2,268,442		2,352,189
Other receivables			-		309,562
Inventory	4		3,421,833		4,011,233
Income tax receivable			88,140		-
Prepaid expenses			199,884		234,530
Total Current Assets		$	7,306,729	$	9,325,815
Long-Term					
Investment	5		487,704		426,288
Property, plant and equipment	6		11,081,433		12,064,111
Due from related parties	8		2,000		14,000
Intangible assets	7		1,128,978		1,296,177
Deposits			55,881		32,256
Total Assets		$	20,062,725	$	23,158,647
Liabilities					
Current					
Accounts payable and accrued liabilities		$	1,329,265	$	1,889,564
Lease liability	12		338,233		239,445
Income taxes payable			-		493,521
Total Current Liabilities		$	1,667,498		2,622,530
Long-Term					
Lease liability	12		5,918,830		6,297,811
Deferred tax liability			58,703		61,082
Total Liabilities		$	7,645,031	$	8,981,423
Shareholders' Equity					
Share capital	13		11,252,443		10,266,560
Contributed surplus	14		2,185,578		2,083,436
Retained earnings			(810,422)		1,742,927
Accumulated other comprehensive (loss) income			(209,905)		84,301
Total Shareholders' Equity		$	12,417,694	$	14,177,224
Total Liabilities and Shareholders' Equity		$	20,062,725	$	23,158,647

On behalf of the Board:

***"David Robbins"** signed*
David Robins
Director and Chief Executive Officer
Cerritos, California, USA
April 19, 2023

***"Roger Dent"** signed*
Roger Dent
Director
Cerritos, California, USA
April 19, 2023

The accompanying notes are an integral part of these consolidated financial statements

Omni-Lite Industries Canada Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2022 and 2021
United States Dollars

For the Years Ended December 31	Note	2022	2021
Revenue		$ 11,136,724	$ 5,762,864
Cost of goods sold	4	11,116,534	5,780,676
Gross margin		$ 20,190	$ (17,812)
Overhead expenses			
Selling, general and administrative		1,966,740	1,714,126
Share-based compensation	13	102,142	121,963
Amortization of intangible assets	7	119,826	78,121
Total overhead expenses		2,188,708	1,914,210
Research and product design		144,876	224,058
Loss from operations		$ (2,313,394)	$ (2,156,080)
Other income (expense)			
Interest income		64,817	10,625
Interest expense - bank indebtedness	11	-	(51,619)
Interest expense - lease	11	(576,642)	(67,440)
Gain on sale land and building		-	1,767,177
Loan forgiveness		-	399,587
Other expense		-	(20,319)
Other income		288,320	-
Income before income taxes		$ (2,536,899)	$ (118,069)
Income tax expense (recovery)			
Current		18,828	517,745
Deferred		(2,378)	(152,717)
Total tax		16,450	365,028
Net Loss		$ (2,553,349)	$ (483,097)
Other comprehensive income (loss)			
Translation of foreign subsidiary		(355,622)	74,024
Gain (loss) on investment	5	61,416	(45,432)
Comprehensive loss		$ (2,847,555)	$ (454,505)
Loss Per Share			
-basic	15	(0.17)	(0.04)
-diluted	15	(0.17)	(0.04)
Weighted Average Share Outstanding			
-basic	15	15,412,564	11,435,072
-diluted	15	15,412,564	11,435,072

The accompanying notes are an integral part of these consolidated financial statements

Omni-Lite Industries Canada Inc.
Consolidated Statements of Shareholders' Equity
For the years ended December 31, 2022 and 2021
United States Dollars

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income/Loss	Shareholders' Equity
Balance at December 31, 2020		$ 8,204,897	$ 1,961,473	$ 2,226,024	$ 55,709	$ 12,448,103
Share-based compensation	13	-	121,963	-	-	121,963
Net loss		-	-	(483,097)	-	(483,097)
Loss on investment	5	-	-	-	(45,432)	(45,432)
Cumulative translation adjustment		-	-	-	74,024	74,024
Shares issuance	13	2,061,663	-	-	-	2,061,663
Balance at December 31, 2021		$ 10,266,560	$ 2,083,436	$ 1,742,927	$ 84,301	$ 14,177,224

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income/Loss	Shareholders' Equity
Balance at December 31, 2021		$ 10,266,560	$ 2,083,436	$ 1,742,927	$ 84,301	$ 14,177,224
Share-based compensation	13	-	102,142	-	-	102,142
Net loss		-	-	(2,553,349)	-	(2,553,349)
Gain on investment	5	-	-	-	61,416	61,416
Cumulative translation adjustment		-	-	-	(355,622)	(355,622)
Shares issuance	13	985,883	-	-	-	985,883
Balance at December 31, 2022		$ 11,252,443	$ 2,185,578	$ (810,422)	$ (209,905)	$ 12,417,694

The accompanying notes are an integral part of these consolidated financial statements

For the years ended December 31	Note	2022	2021
Cash flows from operating activities			
Net loss for the year		**$ (2,553,349)**	$ (483,097)
Adjustments for:			
Depreciation	6	**1,140,063**	775,335
Inventory reserve		**(90,485)**	229,068
Allowance for bad debt (reversal)		**-**	(7,304)
Amortization of intangible assets	7	**119,826**	78,121
Deferred tax (recovery) expense		**(2,378)**	(152,717)
Share-based compensation	13	**102,142**	121,963
Lease interest expense	12	**576,642**	67,440
Loan Forgiveness	11	**-**	(399,587)
Gain on sale of land and building	12	**-**	(1,767,177)
		$ (707,539)	$ (1,537,955)
Net change in non-cash working capital items			
Accounts receivable		**83,747**	(165,677)
Other receivables		**309,562**	-
Inventory		**679,885**	285,384
Prepaid expenses		**34,645**	(3,773)
Accounts payable and accrued liabilities		**(560,299)**	102,473
Deposits		**(23,625)**	1,237
Income taxes payable/receivable		**(581,661)**	491,121
Decrease in cash from operating activities		**$ (765,285)**	$ (827,190)
Cash flows from financing activities			
Proceeds from sale of land and building		**-**	6,578,467
Proceeds from sale of equipment		**-**	14,000
Re-payment of bank indebtedness		**-**	(1,519,349)
Proceeds from payback protection loan	11	**-**	399,587
Employee receivables	8	**12,000**	12,000
Lease liability borrowing	12	**97,229**	-
Repayment of lease liability	12	**(823,015)**	(159,430)
(Decrease)/increase in cash from financing activities		**$ (713,786)**	$ 5,325,275
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired		**-**	(3,283,985)
Purchase of property, plant and equipment	6	**(464,658)**	(330,449)
Shares sold in private placement	13	**985,883**	-
Increase/(decrease) in cash from investing activities		**$ 521,225**	$ (3,614,434)
Currency translation		**(132,025)**	(7,755)
(Decrease)/increase in cash		**$ (1,089,871)**	$ 875,896
Cash, beginning of year		**$ 2,418,301**	$ 1,542,405
Cash, end of year		**$ 1,328,430**	$ 2,418,301

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations

Omni-Lite Industries Canada Inc. (“Omni-Lite” or the “Company”) was incorporated under the Laws of the Business Corporations Act of Alberta in 1992. The consolidated financial statements of the Company for the year ended December 31, 2022 include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements were authorized for issue by the Board of Directors on April 19, 2023. The Company’s head office, research and development, and production operations are located at 17210 Edwards Road, Cerritos, California, U.S.A, 90703 and its registered office is located at 18 Kings Street East, Suite 902, Toronto, ON M5C 2C4. The Company’s core mission is the adaptation of material science for mission critical applications. These products include components for the aerospace, military, specialty automotive and sports and recreational industries. Since the most significant portion of the Company's operations is located in the United States (“U.S.”) and its functional currency is U.S. dollars, these consolidated financial statements are presented in U.S. dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

Impact of the COVID-19 Pandemic

The ongoing COVID-19 pandemic (“pandemic”) has caused and may continue to cause governments and businesses around the world to take steps to combat the spread and adverse effects of COVID-19 virus and its variants. Such actions include the implementation of travel bans, stay at home orders, social distancing, quarantines, limits on business activity and other disruptive measures. These actions have resulted in and may continue to result in an economic slowdown. Governments have responded with significant monetary interventions designed to support and stabilize the adverse effects of the pandemic on individuals and businesses.

The pandemic has significantly adversely affected the Company’s operations during 2022 and 2021. During 2022, the pandemic did effect some of our supply chain, taking long for us to procure materials, resulting in some delays in shipments. The full extent of the effects of the pandemic on the Company’s future operations continues to be unknown at this time and is dependent on the duration of the pandemic and future government and customer actions. In response to this uncertainty, the Company has fully availed itself of Paycheck Protection Program, completed a workforce reduction program and implemented other cost saving measures to preserve cash.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee (“IFRIC”) in effect at January 1, 2022. The principal accounting policies are set out below.

2. Significant Accounting Policies (Continued)

The preparation of consolidated financial statements requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Consolidation

These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Omni-Lite Industries California Inc. ("California"), Monzite Corporation ("Monzite"), Impellimax, Inc. ("Impellimax"), Marvel Acquisition Co. Ltd. and Designed Precision Castings, Inc. ("DP Cast"). All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share-based compensation and certain financial instruments, which are measured at fair value.

(c) Inventory

Inventory consists of raw materials, work in progress, and finished goods. Inventory is carried at the lower of weighted average costs (including materials, labor and allocated overheads) and net realizable value. Finished goods inventory is recorded at the average cost of production which approximates actual cost and includes raw materials, labor and allocated overheads.

(d) Revenue

The Company recognizes revenue at a point in time from the sale of products, which include components for the aerospace, military, specialty automotive, and sports and recreational industries, when the performance obligations have been completed, as control of these products transfer to the customer, and collectability is reasonably assured. The consideration for product sales rendered is measured at the fair value of the consideration received and allocated based on their individual selling prices. The individual selling prices are determined based on the agreed upon prices at which the Company sells in separate transactions.

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

(e) Cash

Cash is comprised of cash and other short-term, highly liquid investments with original maturities of less than three months from their purchase.

(f) Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided using the following methods and annual rates intended to depreciate the cost of these assets over their estimated useful lives.

2. Significant Accounting Policies (Continued)

Building	4% declining balance
Production equipment	7-30 years straight-line
Other equipment	30% declining balance
Non-consumable tooling	2.5 years straight-line

When the cost of a part of an item of property, plant and equipment is significant in relation to the total cost of an item and the items have different useful lives, they are accounted for as separate items (significant components) of property, plant and equipment. The costs of day-to-day servicing of property, plant and equipment are recognized in overhead or direct operating expenses. Gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within other income in the consolidated statements of loss and comprehensive loss. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate. Other equipment consists of production support equipment.

(g) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization is provided using the following methods and annual rates:

Customer relationships	5 years straight-line
Trademark	5 years straight-line
Developed Technology	5 years straight-line
Non-compete agreements	3 years straight-line

Intangible assets with indefinite lives are not amortized.

2. Significant Accounting Policies (Continued)

(h) Financial instruments

Classification and Measurement of Financial Instruments

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

Amortized Cost

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

FVTPL

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

FVOCI

The Company elected to classify its equity investment as measured at FVOCI. Financial assets classified as FVOCI are subsequently measured at fair value with changes in fair value charged to OCI.

Derecognition of financial instruments

Financial assets are derecognized when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

2. Significant Accounting Policies (Continued)

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

(i) Impairment of financial assets

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

(j) Impairment of non-financial assets

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset. External triggering events include, for example, changes in customer or industry dynamics, other technologies, and economic declines. Internal triggering events for impairment include lower profitability or planned restructuring. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets, referred to as cash generating units (“CGU”).

If the carrying amount of the asset, or its respective CGU, exceeds its estimated recoverable amount, the difference is recognized as an impairment charge. The Company’s corporate assets, which do not generate separate cash inflows, are allocated to the CGUs on a reasonable basis for impairment testing purposes.

The Company’s impairment tests compare the carrying amount of the asset or CGU to its recoverable amount. The recoverable amount is the higher of fair vale less costs of disposal (“FVLCD”) and value in use (“VIU”). FVLCD is the amount obtainable from the sale of an asset or CGU in an arm’s length transaction of similar assets or observable market process, less the costs of disposal. The determination of VIU requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

2. Significant Accounting Policies (Continued)

(k) Leases

The Company enters into leases for office space in the normal course of business which expire at various times through 2041. Lease contracts are typically made for fixed periods and may contain a renewal option. Where renewal is likely to occur, the Company includes a renewal option in its lease liabilities at the last known lease rate. Leases are negotiated on an individual basis, and each contain different terms and conditions. The Company does not have any contingent rental or sublease payments. The Company has sublease income on a month-to-month basis for one of its leases.

The Company also enters into leases for the purchase of equipment.

The Company assesses whether a contract contains a lease at the inception of a contract. A lease contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Lease liabilities are recognized with corresponding right-of-use assets for all lease agreements, except for short-term leases with terms of 12 months or less and leases of low value assets, which are expensed on a straight-line basis over the lease term. Consideration in a contract is allocated to lease and non-lease components on a relative stand-alone value basis. Lease components and any associated non-lease components are accounted for as a single lease component.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate, unless the rate implicit in the lease is readily determinable. A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics. Lease payments included in the measurement of the lease liability comprise fixed (and in-substance fixed) lease payments, less any lease incentives, variable lease payments that depend on an index or rate, and payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

Lease liabilities are subsequently measured at amortized cost using the effective interest method. Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when the Company changes the assessment of whether to exercise renewal or termination options.

Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the remeasurement of related lease liabilities. The right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term.

2. Significant Accounting Policies (Continued)

(l) Provisions

A provision is recognized in the consolidated financial statements when the Company has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At December 31, 2022 and December 31, 2021, there were no provisions recognized in the consolidated financial statements.

(m) Income taxes

Income tax expense for the year consists of current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive loss, except to the extent that it relates to a business combination or items recognized in OCI or directly in equity.

Taxable income differs from income as reported in the consolidated statements of loss and comprehensive loss. As a result, current tax is the expected tax due on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

In general, deferred taxes are recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognized and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred tax asset is realized, or the deferred tax liability is settled.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

(n) Foreign exchange

These consolidated financial statements have been presented in U.S. dollars, the functional currency of the Company's operations. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the foreign exchange rate in effect at the statement of financial position date. Revenue and expense transactions in foreign currencies are translated to the functional currency at the average foreign exchange rate for the period with all consequential exchange differences recognized in Cumulative translation adjustment.

Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. All resulting exchange differences from translation of the functional currency into a different reporting currency are recognized as a separate component in Cumulative translation adjustment.

2. Significant Accounting Policies (Continued)

(o) Business combinations

The Company uses the acquisition method of accounting to account for business combinations. At the acquisition date, the Company recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interests of the acquiree at fair value.

Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred. If the business combination results in a contingent consideration being transferred to the acquirer, it is recognized at fair value at acquisition date.

(p) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGUs expected to benefit from the synergies of the business combination.

CGU's to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than it's carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

(q) Share-based compensation plan

The Company provides equity-settled share-based payments in the form of a share option and warrant plan to its employees, officers, directors and consultants. The Company accounts for these share options and warrants using the graded vesting method of accounting for share-based compensation expense. Under this method, the associated compensation expense is charged to the consolidated statements of loss and comprehensive loss with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options and warrants granted. The forfeiture rate is based on past experience of actual forfeitures.

Share-based compensation transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based compensation transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or services.

(r) Per share amounts

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. The Company follows the treasury stock method for the computation of diluted per share amounts. This method assumes the proceeds from the exercise of dilutive options are used to purchase common shares at the weighted average market price during the period.

2. Significant Accounting Policies (Continued)

(s) Research and product design expenses

Expenses related to research and development activities that do not meet the criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet the criteria for deferral are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period. Research and product design expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

(t) Segmented information

The Company and its wholly owned subsidiaries are grouped into two geographical segments in the United States and Canada, and each are supported by a corporate segment. The three geographical segments share common economic characteristics. The financial results are reviewed regularly by the Company's chief operating decision-makers ("CODM").

The CODM make decisions about resource allocation and assess segment performance based on the internally prepared segment information.

(u) Government grants

The Company recognizes government grants as other income when it believes it has fulfilled all of the requirements necessary for the grants to be forgiven.

(v) Significant accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. On an ongoing basis, management evaluates its judgments and estimates in relation to revenue, expenses, assets and liabilities. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The following are the most significant accounting judgments and estimates made by the Company in applying accounting policies:

Judgments

Determining CGU's

In assessing the recoverability of long-lived and intangible assets, judgment is required in the determination of the appropriate grouping of assets that generate cash inflows or CGU's. The determination of CGU's is based on management's assessment of the independence of revenue earned, operating asset utilization, shared infrastructure, and similarity of risk exposures. Omni-Lite also uses significant judgment in evaluating if a triggering event occurs which would warrant an evaluation of impairment of long-lived and intangible assets based on the identified CGU's.

The Company had three CGU's as follows; Omni-lite, Monzite and DP Cast.

2. Significant Accounting Policies (Continued)

Investments

The Company applies judgment in determining if it has control over the investment where the Company holds less than 50% equity ownership. The judgment is based on management's determination of whether the Company has control over the activities, projects, financial and operating policies of the investment.

Deferred taxes

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

Government grants

The Company applies judgment in determining whether or not all conditions have been met when recognizing government grants into other income.

Estimates

Provisions for expected credit losses

The Company calculates expected credit losses considering historical default rates and forward-looking assumptions to calculate, which is reviewed by management on a quarterly basis. Assessments are made by management after taking into consideration the customer's payment history, the current economic environment, and their credit worthiness. The Company's history of bad debt expense has not been significant; however, a customer's ability to fulfill its payment obligations can change suddenly without notice. Specific provisions may be used where there is information that a specific customer's expected credit losses have increased.

Inventory

The amounts for finished goods inventory are based on average costs and includes overhead cost allocation estimates.

Share-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of share-based compensation. Inputs to the model are subject to various estimates regarding volatility, interest rates, dividend yields, forfeiture rates and expected life of the units issued. These inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Impairment of non-financial assets

The recoverable amount of a CGU is based on estimates and assumptions regarding the expected market outlook and future cash flows. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy or internal forecasts.

2. Significant Accounting Policies (Continued)

Although the Company believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Company's reported financial results.

Useful life of intangible assets

The consolidated financial statements include estimates of the useful economic life of intangible assets. Due to varying assumptions required to be made with regards to future recoverability of these assets, the amortization recorded by management is based on their best estimate in this regard and may be significantly different from those determined based on future operational results.

Useful life of property and equipment

The consolidated financial statements include estimates of the useful economic life of property, plant and equipment. Due to varying assumptions required to be made with regards to future recoverability of these assets, the depreciation recorded by management is based on their best estimate in this regard and may be significantly different from those determined based on future operational results.

Leases

The application of IFRS 16 requires the Company to make judgments and estimates that affect the measurement of right-of-use assets and lease liabilities. In determining the lease term, all facts and circumstances that create an economic incentive to exercise renewal options (or not exercise termination options) are considered. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

Business combinations – purchase price allocation

The consideration transferred and acquired assets and assumed liabilities are recognized at fair value on the date the Company effectively obtains control. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the consideration transferred and acquired intangible assets (including goodwill), property and equipment, other assets and the liabilities assumed are based on estimates and assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition.

3. Business Combination

On December 20, 2021, the Company acquired 100% of the issued and outstanding shares of Designed 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.

3. Business Combination (Continued)

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 assets		2,430,986
Customer relationships		264,674
Goodwill		496,808
Account payable and accrued liabilities		(984,929)
Lease liabilities		(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 goodwill recognized on the acquisition is not deductible for tax purposes.

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. 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.

The fair value of the customer relationships was determined using a discounted cash flow analysis. The key assumptions used in the cash flow projection include: (1) a discount rate of 39%; (2) average revenue growth rate of 18%; (3) customer growth rate of 15%; and terminal revenue growth rate of 3% per year.

Transaction costs included in the consolidated statements of loss and comprehensive income loss were approximately $404,275. 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 $77,206 using the Black-Scholes method. The warrants have an exercise price of CAD$0.95, are exercisable immediately and have a five-year life (note 13).

4. Inventory

The major components of inventory are classified as follows:

The cost of inventories recognized as expense and included in cost of goods sold for the year ended December 31, 2022, was $11,116,534 (2021 - $5,780,676). During 2022, the Company recorded a reserve for obsolete inventory of $635,886 (2021 - $572,693) and wrote-off $nil (2021 - $nil).

	December 31, 2022	December 31, 2021
Raw Materials	781,992	569,651
Tooling	531,217	497,328
Work in Progress	856,817	1,161,579
Finished Goods	1,251,807	1,782,675
Total	**$ 3,421,833**	**$ 4,011,233**

5. Investment

At December 31, 2022, the long-term investment consists of an equity investment of 6,004,970 common shares of California Nanotechnologies Corp. ("California Nano"), a public company related through a common director. The Company's investment is recorded at the fair value as supported by the market price listed on the TSX Venture Exchange.

	Carrying Amount
Investment at December 31, 2020	$ 471,720
Loss from market price valuation	(45,432)
Investment at December 31, 2021	$ 426,288
Gain from market price valuation	61,416
Investment at December, 2022	**$ 487,704**

6. Property, Plant and Equipment

	Land	Building	Production Equipment	Other Equipment	Non-Consumable Tooling	Right-of-Use Assets	Totals
Cost							
At December 31, 2020	$770,000	$2,158,925	$15,831,933	$360,459	$7,886,562	$ 505,310	$27,513,189
Additions	-	-	83,321	-	-	2,161,673	2,244,994
Acquisition of subsidiary (note 3)	-	-	2,302,273	103,145	-	2,430,986	4,836,404
Sale of land and building	(770,000)	(2,154,572)	-	-	-	-	(2,924,572)
Retirements	-	-	(271,036)	-	-	-	(271,036)
Elimination on modifications	-	-	-	-	-	(505,310)	(505,310)
Reclassifications	-	-	163,499	(163,926)	427	-	-
Currency translation	-	-	30,508	1,367	-	32,214	64,089
At December 31, 2021	**$ -**	**$ 4,353**	**$18,140,498**	**$301,045**	**$7,886,989**	**$4,624,873**	**30,957,758**
Additions	-	-	456,628	8,030	-	-	464,658
Currency translation	-	-	(161,807)	(6,703)	-	(157,496)	(326,006)
At December 31, 2022	**$ -**	**$ 4,353**	**$18,435,319**	**$302,372**	**$7,886,989**	**$4,467,377**	**31,096,410**
Accumulated depreciation							
At December 31, 2020	$ -	$904,258	$10,435,282	$306,633	$7,687,475	$422,117	$19,755,765
Depreciation	-	54,903	366,856	13,066	196,331	144,179	775,335
Sale of land and building	-	(954,808)	-	-	-	-	(954,808)
Retirements	-	-	(236,515)	-	-	-	(236,515)
Elimination on modification	-	-	-	-	-	(446,331)	(446,331)
Reclassifications	-	-	131,511	(131,511)	-	-	-
Currency translation	-	-	83	8	-	110	201
At December 31, 2021	$ -	$ 4,353	$10,697,217	$188,196	$7,883,806	$120,075	$18,893,647
Depreciation	-	-	597,332	25,105	1,760	515,866	1,140,063
Currency translation			(6,611)	(675)	-	(11,447)	(18,733)
At December 31, 2022	**$ -**	**$4,353**	**$11,287,938**	**$212,626**	**7,885,566**	**$624,494**	**$20,014,977**
Net Book Value							
At December 31, 2021	$ -	$ -	$7,443,281	$112,849	$ 3,183	$4,504,798	$12,064,111
At December 31, 2022	**$ -**	**$ -**	**$7,147,381**	**$89,746**	**$1,423**	**$3,842,883**	**$11,081,433**

Of the $1,140,063 of depreciation expense in 2022 (2021 - $765,645), nil was capitalized into inventory and $5,560 (2021 - $9,690) was expensed to selling, general and administration.

As a result of its declining revenue, the Company performed an impairment test on the Monzite and DP Cast CGU at December 31, 2022 based on a FVLCD analysis. It was determined that no impairment exists as the recoverable amount exceeded the carrying amount of the CGU.

7. Intangible Assets

	Customer Relationships	Goodwill	Trademark	Non-Compete Agreements	Patents	Totals
Cost						
December 31, 2020	$240,000	$407,170	$100,000	$20,000	$6,285	$773,455
Acquisition (note 3)	264,674	496,808	-	-	-	761,482
Foreign currency translation	3,507	6,584	-	-	-	10,091
December 31, 2021	**$508,181**	**$910,562**	**$100,000**	**$20,000**	**$6,285**	**$1,545,028**
Foreign currency translation	(17,148)	(32,187)	-	-	-	(49,335)
December 31, 2022	**$491,033**	**$878,375**	**$100,000**	**$20,000**	**$6,285**	**$1,495,693**
Accumulated amortization						
December 31, 2020	$110,000	$ -	$45,500	$15,167	$ -	$170,667
Amortization	53,288	-	20,000	4,833	-	78,121
Foreign currency translation	63	-	-	-	-	63
December 31, 2021	$163,351	$ -	$65,500	$20,000	$ -	$248,851
Amortization	99,826	-	20,000	-	-	119,826
Foreign currency translation	(1,962)	-	-	-	-	(1,962)
December 31, 2022	$261,215	$ -	$85,500	$20,000	$ -	$366,715
Net book value						
December 31, 2021	$344,830	$910,562	$34,500	$ -	$6,285	$1,296,177
December 31, 2022	**$229,818**	**$878,375**	**$14,500**	**$ -**	**$6,285**	**$1,128,978**

Goodwill of $407,170 has been allocated to the Monzite CGU and goodwill of $471,205 to DP Cast CGU. The Company performed its impairment test at December 31, 2022, and the recoverable amount of the Monzite CGU and DP Cast CGU was determined based on a VIU calculation using the following key assumptions:

- 5-year (2021 – 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%-20% (2021 – 13%).
- Average forecasted EBITDA margin of 25%-42% (2021 – 19%); and,
- Cash flows were discounted at an after-tax discount rate of 20% (2021 – 20%) 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 and therefore, did not result in an impairment.

7. Intangible Assets (Continued)

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, 2022 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 20%-23%;
- Average forecasted EBITDA margin of 18%; and,
- Cash flows were discounted at an after-tax discount rate of 20% 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 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.

8. Related Party Transactions and Balances

During the years ended December 31, 2022 and 2021, the Company had the following related party transactions and balances not disclosed elsewhere in these consolidated financial statements:

California Nanotechnologies:	**December 31, 2022**	December 31, 2021
i. A loan receivable including accrued interest in the amount of $1,252,469 which is due on demand. Of this amount, $1,261,936 accrues interest at 7.5% per annum. The loan was secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. This loan receivable is fully reserved.	**$ -**	$ -
ii. The Company has provided a guarantee on the bank debt held by California Nanotechnologies Corp. The bank debt consisting of a term loan was $nil as of December 31, 2022 ($143,000 at December 31, 2021).		
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 $5,000 each. One grant outstanding matures in 2021, one grant matures in 2022 and two grants mature in 2023.	**10,000**	10,000
Reserve for earned grants	**(28,000)**	(16,000)
Total due from related parties	**$ 2,000**	$ 14,000
Current portion	**-**	-
Long-term portion	**$ 2,000**	$ 14,000

8. Related Party Transactions and Balances (Continued)

Significant Subsidiaries:
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 all other entities 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%	Indirectly 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
Monzite Holding Co. (Delaware, USA)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada, Inc., which was acquired on September 21, 2018. It is a holding company for Monzite Corporation.	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%	Indirectly 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
Marvel Acquisition Co. Ltd. (Ontario, Canada)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada Inc., which is a holding company, and sole shareholder of Designed Precision Castings, Inc	Canada

9. Income Taxes

For the years ended December 31		**2022**		2021
Loss before tax	$	**(2,536,899)**	$	(118,069)
Statutory tax rate		**23.00%**		23.00%
Income taxes at the statutory rate		**(583,487)**		(27,156)
Share-based compensation		**23,493**		28,051
Change in deferred tax asset not recognized		**403,511**		612,765
Permanent items		**(60,496)**		(111,225)
Tax rate differences		**5,178**		(442,406)
Other		**-**		(46,200)
Change is estimate from prior year		**228,251**		351,199
	$	**16,450**	$	365,028

Income tax expense (recovery):		**2022**		2021
Current		**18,828**		517,745
Deferred		**(2,378)**		(152,717)
	$	**16,450**	$	365,028

Principal components of the net deferred tax liability are:

For the years ended December 31		**2022**		2021
Unused tax losses carry forward	$	**2,852,371**	$	2,298,949
Property, plant and equipment		**169**		208
Interest Expense		**-**		166,101
Other		**2,230,853**		2,350,164
Total deferred tax asset		**5,083,393**		4,815,422
Deferred tax asset not recognized		**(1,996,268)**		(1,609,470)
Net deferred tax asset		**3,087,125**		3,205,952
Deferred tax offset		**(3,087,125)**		(3,205,952)
Deferred tax asset	**$**	**-**	**$**	-
Deferred tax liability:				
Property, plant and equipment		**(3,052,366)**		(3,267,034)
Intangible assets		**(93,463)**		-
Total deferred tax liability		**(3,145,829)**		(3,267,034)
Deferred tax offset		**3,087,125**		3,205,952
Total deferred tax liability		**(58,704)**		(61,082)
Net deferred tax liability	**$**	**(58,704)**	**$**	(61,082)

9. Income Taxes (Continued)

The following provides the details of unrecognized temporary differences for which no deferred tax asset has been recognized:

For the years ended December 31	**2022**	2021
Unused tax losses carryforward	**$6,776,435**	$6,264,021
Property, plant and equipment	**733**	905
Other	**1,079,411**	828,051

The Company has non-capital losses of $8,885,197 in Canada which begin to expire in 2031, US federal net operating losses of $1,387,217 with no expiry date and US California net operating losses of $4,088,268 with no expiry date.

10. Compensation of Key Management Personnel

Remuneration of key management personnel during the year was as follows:

	2022	2021
Wages and short-term benefits	**$559,050**	$539,050
Share-based compensation	**50,000**	71,058
	$ 609,050	$ 610,108

Key management personnel of the Company include the Chief Executive Officer, Chief Financial Officer, and the other members of the Board of Directors. For the year ended December 31, 2022, 50,000 warrants were granted to key management personnel (2021 – 100,000 options or warrants).

11. Bank Indebtedness

The Company has a three-year, $3.0 million revolving credit line with City National Bank, an RBC Company, which expired 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, 2022, the loan balance was nil. (December 31, 2021 - nil). The Company will not be able to draw funds on the line of credit until a reassessment is undertaken by the bank. No such re-assessment has been initiated at this time. Interest expense of $nil (2021 - $51,619) 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, 2022. In addition, the Company recorded $576,642 (2021 - $67,440) of lease interest expense.

During 2021, the Company applied for and received $399,587 of funding under the Paycheck Protection 2 Program. The loan was fully forgiven and have been included as Loan forgiveness in the consolidated statements of loss and comprehensive loss.

12. Lease Liability

		December 31, 2022		December 31, 2021
Opening Balance January 1	**$**	**6,537,256**	$	90,535
Modifications		**-**		595,759
Additions		**97,229**		4,054,465
Acquired through DP Cast acquisition (note 3)		**-**		1,863,828
Payments		**(823,015)**		(159,430)
Interest		**576,642**		67,440
Currency translation		**(131,049)**		24,659
Lease liability end of year	**$**	**6,257,063**	$	6,537,256
Less current portion		**(338,233)**		(239,445)
Long-term portion	**$**	**5,918,830**	$	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 leases for its manufacturing and office space as follows:

Location	Type	Liability	Expires	Entered/ Renewed
Cerritos, California	Manufacturing and office	$ 4,062,377	December 2031 with a 10-year extension option which management expects to exercise	Entered December 2021
Cerritos, California	Warehouse	270,065	June 2026	Renewed June 2021
Brampton, Ontario	Manufacturing and office	1,652,635	December 2026 with a 5-year extension option which management expects to exercise	Entered December 2021
Nashua, New Hampshire	Manufacturing and office	201,697	March 2026	Renewed March 2021
Brampton, Ontario	Equipment purchase	70,289	October 2023	Entered December 2021
		$ 6,257,063		

12. Lease Liability (Continued)

The incremental borrowing rate used to calculate the lease liabilities was 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. The total of these costs included in the financial statements are approximately $219,235 (2021 - $22,000). These costs are recorded in selling, general and administrative expenses.

Future minimum lease payments are as follows:

2023	890,257
2024	890,046
2025	902,591
2026	785,787
2027 - 2031	3,493,750
Total	$6,962,431

13. Share Capital

a) Authorized:

Unlimited number of common shares with no par value.

b) Issued:

	Number of Shares	Amount
Total issued and outstanding December 31, 2020	11,333,854	$ 8,204,897
Issued for acquisition (note 3)	3,078,710	2,061,663
Issued and outstanding December 31, 2021	**14,412,564**	**$10,266,560**
Issued for private placement [(i)]	1,000,000	985,883
Issued and outstanding December 31, 2022	**15,412,564**	**$11,252,443**

(i) In February 2022, the Company issued 1,000,000 shares in a private placement at a value of CAD$ 1.25 per share.

c) Share Options:
The Company established a share option plan for employees, directors, and consultants on September 15, 1997. Under this plan, the Company is authorized to issue options up to 10% of the outstanding number of issued and outstanding shares. From grant date, options vest at one-third of the total grant annually with an expiration term of 5 years.

13. Share Capital (Continued)

The Company has granted share options to directors, consultants, and employees of the Company as follows:

	Number	Option Price per Share Range	Weighted Average Exercise Price
Option outstanding at December 31, 2020	802,667	CAD $0.90 to $1.85	CAD $1.10
Options – expired	(146,667)	CAD $1.40 to $1.48	CAD $1.48
Options – granted	390,000	CAD $0.76 to $0.92	CAD $0.88
Options outstanding at December 31, 2021	**1,046,000**	**CAD $0.76 to $1.85**	**CAD $0.97**
Options – expired	(81,000)	CAD $1.40 to $2.00	CAD $1.85
Options – granted	50,000	CAD $0.60 to $.89	CAD $0.76
Options outstanding at December 31, 2022	**1,015,000**	**CAD $0.60 to $1.37**	**CAD $0.89**

The options that are outstanding at December 31, 2022, are summarized as follows:

Options Outstanding	Option Price	Weighted Average Exercise Price of Options Outstanding	Weighted Average Remaining Contractual Life
140,000	CAD $0.76	CAD $0.76	3.92 years
875,000	CAD $0.90-$0.92	CAD $0.91	2.61 years
1,015,000	CAD $0.76-$0.92	CAD $0.89	2.72 years

Options Vested	Option Price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
575,000	CAD $0.90	CAD $0.90	1.90

The options that are outstanding at December 31, 2021, are summarized as follows:

Options Outstanding	Option Price	Weighted Average Exercise Price of Options Outstanding	Weighted Average Remaining Contractual Life
90,000	CAD $0.76	CAD $0.76	4.69 years
875,000	CAD $0.90-$0.92	CAD $0.91	3.61 years
81,000	CAD 1.85	CAD $1.85	0.45 years
1,046,000	CAD $0.76-1.85	CAD $0.97	3.46 years

13. Share Capital (Continued)

Options Vested	**Option Price**	**Weighted Average Exercise Price of Options Currently Exercisable**	**Weighted Average Remaining Contractual Life**
383,328	CAD $0.90	CAD $0.90	2.90
81,000	CAD 1.85	CAD $1.85	0.45
464,328	CAD $0.90-$1.85	CAD $1.07	2.48

In estimating expected stock price volatility at the time of a particular share option grant, the Company relies on observations of historical volatility trends. Share-based compensation expense in relation to stock options was $87,596 for the year ended December 31, 2022 (2021- $40,955).

d) Warrants:

The Company initiated a long-term stock warrant plan in the third quarter of 2018 for key management and employees. The stock warrant plan is monitored by the Board of Directors who determine the strike price and vesting terms of warrants issued.

	Number	Warrant Price Per Share Range	Weighted Average Exercise Price
Warrants outstanding at December 31, 2020	1,200,000	CAD $1.27 to $2.26	CAD $1.67
Warrants granted 2021	200,000	CAD $0.95	CAD $0.95
Total warrants outstanding December 31, 2021, and December 31, 2022	**1,400,000**	**CAD $0.95 to $2.26**	**CAD $1.59**
Warrants exercisable at December 31, 2022	**510,000**	**CAD $0.95 to $1.55**	**CAD$1.23**

13. **Share Capital** (Continued)

The warrants that are outstanding as of December 31, 2022 are summarized as follows:

Warrants Outstanding	Warrant Exercise Price	Weighted Average Remaining Life
200,000	CAD $0.95	3.97 years
200,000	CAD $1.27	3.73 years
125,000	CAD $1.27	3.73 years
175,000	CAD $1.41	3.73 years
200,000	CAD $1.55	3.73 years
250,000	CAD $1.98	3.73 years
250,000	CAD $2.26	3.73 years
1,400,000	CAD $1.59	3.76 years

On December 20, 2021, the Company granted 200,000 stock warrants to Cypress for advisory services in connection with the acquisition of DP Cast. The warrants vested immediately, had a fair value of $77,206 and were fully expensed in 2021 and expire on December 20, 2026. The fair value of the warrants granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Number of warrants	200,000
Weighted average exercise price	CAD $0.95
Weighted average risk-free interest rate	1.17%
Weighted average expected life (years)	5
Weighted average volatility rate	64.00%
Weighted average dividend yield	0.00%
Weighted average forfeiture rate	0.00%

700,000 of the warrants outstanding have exercise prices ranging from CAD $1.27 – CAD $2.26 and vest upon meeting escalating cumulative three-year EBITDA targets on dates ranging from December 31, 2021, to December 31, 2024. The Company has determined that the EBITDA targets are not expected to be met and, therefore, no expense has been recorded.

Total share-based compensation expense recognized in 2022 in relation to stock warrants was $6,195 (2021 - $81,008)

14. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	December 31, 2022	December 31, 2021
Balance, beginning of year	**$ 2,083,436**	$ 1,961,473
Share-based compensation (Note 13(c), (d))	**102,142**	121,963
Balance, end of year	**$ 2,185,578**	$ 2,083,436

15. Loss per Common Share

The basic loss per common share is calculated using net loss divided by the weighted-average number of common shares outstanding. The diluted loss per common share is calculated using net loss divided by the weighted-average number of diluted common shares outstanding, as adjusted with the treasury stock method. 1,015,000 options (2021 – 1,046,000) and 1,400,000 warrants (2021 – 1,400,000) were excluded in calculating the weighted-average number of diluted common shares outstanding for the years ended December 31, 2022 and 2021 because the Company was in a net loss position for both years.

16. Segment Information

The Company has its operations and subsidiaries in the United States and Canada.

	United States	Canada	Total
For the year ended December 31, 2022			
Revenue	**$ 7,130,994**	**$ 4,005,730**	**$ $11,136,724**
Net loss	**(708,938)**	**(1,844,411)**	**(2,553,349)**
Non-current assets	**6,044,758**	**6,711,238**	**12,755,996**
For the year ended December 31, 2021			
Revenue	$ 5,694,790	$ 68,074	$ 5,762,864
Net loss	334,920	(818,017)	(483,097)
Non-current assets	7,752,923	6,079,909	13,832,832

17. Financial Instruments

The 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, 2022		December 31, 2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 1,328,430**	**$ 1,328,430**	$ 2,418,301	$ 2,418,301
At FVOCI				
Investment	**$ 487,704**	**$ 487,704**	$ 426,288	$ 426,288
At Amortized cost				
Accounts receivable	**$ 2,268,442**	**$ 2,268,442**	$ 2,352,189	$ 2,352,189
Due from related parties	**2,000**	**2,000**	14,000	14,000
Accounts payable and accrued liabilities	**1,329,265**	**1,329,265**	1,889,564	1,889,564

17. 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	$ 1,328,430	$ 1,328,430	$ -	$ -
Investment	487,704	487,704	-	-

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

The carrying values of accounts receivable, other receivables and 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.

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.

Interest Rate Risk
The Company's line of credit facility discussed in Note 11 may fluctuate in value as a result of 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, 2022, the Company has no interest rate exposure as it has no debt. The annual increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $nil (December 31, 2021 - nil).

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.

Other Price Risk
The Company has financial instruments that may fluctuate in value as a result of changes in market price. The Company has an investment in shares of California Nanotechnologies, Inc. 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 OCI. As at December 31, 2022, a 1% change in the price of the investment would have an impact of $4,806 (December 31, 2021 - $4,263).

17. Financial Instruments (Continued)

Liquidity Risk

At December 31, 2022, the Company had no borrowings and $1,328,430 of cash in the bank. In February 2022, the Company issued an additional 1,000,000 shares of common stock at CAD$1.25 per share which generated additional cash of approximately $985,000. 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
December 31, 2022					
Accounts payable and accrued liabilities	$ **1,329,265**	$ -	$ -	$ -	$ **1,329,265**
December 31, 2021					
Accounts payable and accrued liabilities	$ 1,889,564	$ -	$ -	$ -	$ 1,889,564

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 year ended December 31, 2022, the Company had one customer who each accounted for in excess of 10% of revenue for approximately $1,840,900 or 17% of sales (December 31, 2021 – two customers totaling $2.415 million or 42% of sales). 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 age of accounts receivable from invoice date, which are not considered impaired.

	Total	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90
December 31, 2022	**$ 2,268,442**	**$ 1,297,490**	**$ 605,554**	**$ 234,191**	**$ 131,207**
December 31, 2021	$ 2,352,189	$ 1,541,341	$ 602,853	$ 119,117	$ 88,878

18.Commitments

The Company has purchase orders with various customers, in the normal course of operations, to supply parts during 2023.

Omni-Lite has leases for commercial space in Cerritos, California, Brampton, Ontario and Nashua, New Hampshire for manufacturing, warehouse and office space. A schedule of the future minimum rental payments under leases primarily for commercial space is as follows:

Year		Amount
2024	$	890,046
2025		902,591
2026		785,787
2027 - 2031		2,788,382
Total	$	5,366,806

Included in the above are minimum rent payments associated with equipment purchase leases of $41,140. These amounts will be paid off by October 2023.

19.Selling, General, and Administrative Expense

Selling, general and administrative expense consist of the following:

		2022		2021
Payroll	$	**1,169,517**	$	843,827
Transaction related (note 3)		**29,311**		404,275
Outside services		**386,804**		359,725
All other		**381,108**		106,299
	$	**1,966,740**	$	1,714,126

20. 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 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 shareholders' 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 appropriate 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.

Omni-Lite Industries Canada Inc.
Management Discussion and Analysis
For the year ended December 31, 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 twelve months ended December 31, 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 April 19, 2023.

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.

Selected Consolidated Financial Information

All figures are in US dollars except as noted.

Summary of Financial Highlights

	For the year ended December 31, 2022	For the year ended December 31, 2021
Revenue	**$11,136,724**	$5,762,864
Adjusted EBITDA (1)	**(1,127,507)**	(908,313)
Net loss	**(2,553,349)**	(483,097)
Diluted EPS	**$ (0.17)**	$ (0.04)
Diluted weighted average shares outstanding	**15,412,564**	11,435,072
Adjusted Free cash flow (1)	**(6**38,632**)**	(460,733)
Total assets	**20,062,725**	23,158,647

Results from Operations for the Year Ended December 31, 2022

Revenue

For the year ended December 31, 2022, Omni-Lite reported revenue of $11,136,724, as compared to $5,762,864 in the year ended December 31, 2021, an increase of approximately $5,373,860 or 93%. The Increase in revenue was principally due to the addition of DP Cast in December of 2021 combined with higher contributions from in microwave electronics, automotive sales, military and aerospace sales.

Cost of Goods Sold

For the year ended December 31, 2022, cost of goods sold (“COGS”) was $11,116,534 as compared to $5,780,676 in the year ended December 31, 2021, or an increase of approximately $5,335,859. The increase was due principally to the addition of DP Cast in December 2021, as well as an increases in material costs, labor costs and fixed overhead.

Overhead Expenses

Overhead expenses for the year ended December 31, 2022, were $2,188,708 as compared to $1,914,210 for the year ended December 31, 2021, an increase of $274,498 or 14% Amortization of intangibles increased by $41,705 as a result of the acquisition of DP Cast.

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

For the year ended December 31, 2022, R&D expense was $144,876 as compared to $224,058 in the year ended December 31, 2021. The decrease was due to an increase in direct labor as a result of increased sales and deploying more product development resources to manufacturing.

Other Income/Expense:

Interest income was $64,817 in the year ended December 31, 2022, compared with $10,625 in the year ended December 31, 2021. Interest expense was $576,642 in the year ended December 31, 2022, as compared with $119,059 in the year ended December 31, 2021. Of this amount, all of it was non-cash interest expense associated with IFRS 16 lease accounting as compared to $67,440 in the year ended December 31, 2021. The remaining $nil ($51,619 in 2021) of interest expense was associated with borrowings under its revolving line of credit facility.

In 2021 the Company applied for and received $399,587 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 assets and recorded a loss on disposition of approximately $20,000.

In December 2021, the Company sold its California facility including its land and improvements and entered into an operating lease for 10 years with an option to renew for an additional 10 years. Net proceeds from the sale, net of transaction costs were approximately $6.6 million. As a result of the Company entering into a leaseback agreement, a portion of the gain on sale was allocated to the lease liability resulting in a recognized gain of approximately $1.8 million.

At December 31, 2022, and 2021, 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, 2022, based on FVLCD analysis. It was determined that no impairment exists as the recoverable amount exceeded the carrying amount of the CGU.

The Company has approximately $407,000 of goodwill of has been allocated to the Monzite CGU and approximately $471,205 of goodwill associated with the DP Cast CGU. The Company performed its impairment test at December 31, 2022, and 2021 and the recoverable amounts of the Monzite CGU and the DP Cast CGU were determined based on a FVLCD calculation using the following key assumptions:

- 5-year (2021– 3 year) cash flow projections expected to be generated based on historical performance, financial forecasts, and growth expectations. Cash flows beyond 3 years assumed a terminal growth rate of 2%.
- Forecasted revenue at an average growth rate of 13%-20% (2021 – 8%).
- Average forecasted EBITDA margin of 25-42% (2021 – 18%); and,
- Cash flows were discounted at an after-tax discount rate of 23% (2021 – 20%) 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 exceeded the carrying amount, 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 not result in an impairment.

- A 1% decrease in the average forecasted EBITDA would not result in an impairment; and,
- A 2% decreased in the average forecasted EBITDA or a 2% increase in the discount rate would result in an insignificant impairment.

Income Tax Provision (Credit):

The income tax provision in the year ended December 31, 2022, was $16,450 as compared to $365,028 in the year ended December 31, 2021. The expense in 2021 was related to the gain on sale of the Company's California facility. The gain was partially sheltered by deferred tax losses associated with net operating loss carryforward amounts.

Net Income/(Loss):

Net loss for the year ended December 31, 2022, was $2,553,349 as compared to a net loss of $483,097 in the year ended December 31, 2021. The net loess for the year ending December 31, 2022, was largely related to the acquisition of DP Cast as well as increase lease related expenses.

Income/(Loss) Per Share:

Basic loss per share was $(0.17) in the year ended December 31, 2022, as compared to ($0.04) in the year ended December 31, 2021, based on the weighted average shares outstanding of 15,412,564 in 2021 and 11,435,072 in 2021.

The diluted loss per share was $(0.17) in the year ended December 31, 2022, compared to ($0.04) in the year ended December 31, 2021. At December 31, 2021, the diluted weighted average number of shares outstanding was 15,412,564 (11,435,072 in 2021). At December 31, 2022 stock options 1,015,000 (1,046,000) in 2021) and 1,400,000 (1,400,000 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.*

	Dec 31, 2022	Sept 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sept 30, 2021	Jun 30, 2021	Mar 31, 2021
Revenue	**$3,111,696**	$3,184,818	$2,460,083	$2,380,127	$1,662,224	$1,630,801	$1,200,122	$1,269,718
Adjusted EBITDA (1)	**(270,211)**	4,177	(487,224)	(374,249)	(450,037)	(65,877)	(257,582)	(134,815)
Net Income (Loss)	**(1,015,767)**	(354,343)	(480,398)	(702,841)	522,993	(204,479)	(447,750)	(353,861)
EPS (Loss) – Basic	**$(0.07)**	$(0.02)	$(0.03)	$(0.05)	$0.05	$(0.02)	$(0.04)	$(0.03)
Free Cash Flow (1)	**125,127**	(614,878)	(554,752)	(183,440)	(700,683)	(236,177)	(93,464)	(127,315)
Adjusted Free Cash Flow (1)	**125,127**	(614,878)	5,248	(154,129)	(3,777)	(236,177)	(93,464)	(127,315)

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. Adjusted Free Cash Flow is a non-IFRS financial measure defined as Free Cash Flow excluding, if any, 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 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, 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.

The components of Adjusted EBITDA (1) for the year ended December 31 are as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021
Net (loss)	**$ (2,553,349)**	$ (483,097)
Add:		
Depreciation	**1,140,063**	775,335
Amortization of intangibles	**119,826**	78,121
Share-based compensation	**102,142**	121,963
Cash transaction expenses associated with acquisition	**29,311**	404,275
Mark to market adjustment	**287,560**	34,807

Accounts receivable recovery associated with loan receivable write-off	**-**	(7,304)
Repayment of lease liability	**(823,015)**	(159,430)
Interest expense	**576,642**	119,059
Interest income	**(64,817)**	(10,625)
Other expense(income)	**(288,320)**	20,319
(Recovery) Provision for income tax	**16,450**	365,028
PPP loan forgiveness	**-**	(399,587)
Gain on sale of land & building	**-**	(1,767,177)
One-time Inventory Adjustment	**330,000**	
Adjusted EBITDA (1)	**$ (1,127,507)**	$ (908,313)

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

	For the year ended December 31, 2022	For the year ended December 31, 2021
Cash flow from operating activities	**$ (762,285)**	**$ (827,190)**
Purchase of property, plant and equipment	**(465,658)**	**(330,449)**
Free Cash Flow	**$ (1,227,943)**	**$ (1,157,639)**
Capitalized rent expense	**-**	**292,631**
Non-recurring items	**589,311**	**404,275**
Adjusted Free Cash Flow	**$ (638,632)**	$ (460,733)

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, 2022	**For the year ended December 31, 2021**
Net cash (used) provided by operating activities	**$ (762,285)**	**$ (827,190)**
Net cash provided from financing activities	**(713,786)**	**5.325,275**
Net cash used in investing activities	**521,225**	**(3,614,434)**
Translation gain (loss)	**(132,025)**	**(7,755)**
Net increase in cash	**$ (1,089,871)**	**$ 875,896**
Cash at the beginning of the period	**$ 2,418,301**	**$ 1,542,405**
Cash at the end of the period	**$ 1,328,430**	**$ 2,418,301**

<u>Cash Flows from Operations</u>

For the year ended December 31, 2022, cash flow from operations was a use of $762,285 as compared to a use of $827,190 in the year ended December 31, 2021. The 2022 use of $807,303 includes approximately $560,000 of non-recurring capital gains tax related to the 2021 sales of the Cerritos facility and approximately $29,000 of transaction costs related to the acquisition of DP Cast. A decrease in inventory generated approximately $589,400 ($500,000 in 2021) in cash from operations, this decrease in inventory included a onetime write off of approximately $330,000; not including this write off inventory decreased by approximately $259,400. This brings the two-year total reduction in inventory to approximately $770,000 not including the inventory write off. This amount was offset by an increase in inventory as a result of the acquisition of DP Cast. In 2022, accounts receivable decreased by approximately $83,747 due to the timing of shipments within the fourth quarter. There was also a decrease in accounts payable and accrued liabilities of approximately $(560,299) due to additional accruals at the December 31, 2021, period for DP Cast related items.

Cash Flows from Financing Activities

Cash used by financing activities was $713,786 in the year ended December 31, 2022, as compared to a source of cash of approximately $5.3 million for the year ended December 31, 2021. In the year ended December 31, 2022, the Company made approximately $823,015 in payments under its operating lease agreements and entered into a new lease transaction valued at $97,229.

In the year ended December 31, 2021, the Company received approximately $400,000 in proceeds from the Paycheck Protection 2 program and generated approximately $6.6 million in proceeds from the sale of its California facility. Contemporaneous with the sale of the California facility, the Company entered into a lease agreement for the facility. The Company used approximately $1.5 million 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.

Cash Flow from Investing Activities

In the year ended December 31, 2022, the Company received approximately $985,883 from the sale of 1.0 million shares of its common stock in a private placement transaction. The Company made capital expenditures of approximately $464,658 to maintain and enhance the Company's array of manufacturing processes.

In the year ended December 31, 2021, the Company used approximately $3.3 million to acquire DP Cast. 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.

The Company's liquidity needs can be met through a variety of sources including cash on hand and cash provided by operations. In 2021 The Company had access to Paycheck Protection Program funding under the U.S. government CARES Act in 2021 which provided a source of cash. 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 has a $3.0 million revolving credit line with City National Bank (the "Credit Agreement") with no outstanding borrowings at December 31, 2022. The Credit Agreement accrues interest at the US Prime Rate and matured on 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 facility 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 approximately $4.1 million and a gain on sale of $1.8 million. The Company prepaid $292,631 of rent payments, which have been excluded in the measurement of the lease liability. The use of proceeds included the repayment of the Company's outstanding bank indebtedness, acquisition of DP Cast, and contribution to working capital.

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

The Company's lease liabilities are as follows:

	December 31, 2022	December 31, 2021
Opening Balance January 1	**$ 6,537,256**	$ 90,535
Modifications	**-**	595,759
Additions	**97,229**	4,054,465
Acquired through DP Cast acquisition (note3)	**-**	1,863,828
Payments	**(823,015)**	(159,430)
Interest	**576,642**	67,440
Currency translation	**(131,049)**	24,659
Lease liability end of period	**$ 6,257,063**	$ 6,537,256
Less current portion	**338,233**	239,445
Long term portion	**$ 5,918,830**	$ 6,297,811

The Company ascribed a 9% discount rate in determination of its lease liability. 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 first half of 2022, the Company entered into a lease to purchase equipment in the amount of $97,229.

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 $595,777.

In connection with the December 2021 sale leaseback transaction involving the California facility, the Company recognized a lease liability of approximately $4.1 million and a gain on sale of approximately $1.8 million. The Company prepaid $292,631 of rent payments which have been excluded in the measurement of the lease liability.

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	$ 4,062,377	December 2031 with a10 year extension option which management expects to exercise.	Entered December 2021
Cerritos, California	Warehouse	270,065	June 2026	Renewed June 2021
Brampton, Ontario	Manufacturing and office	1,652,635	December 2026 with a 5-year extension option which management expects to exercise	Entered December 2021
Nashua, New Hampshire	Manufacturing and office	201,697	March 2026	Renewed March 2021
Brampton, Ontario	Equipment purchase	70,289	October 2022 and October 2023	Entered December 2021
		$ 6,257,063		

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.

	California	**Nashua**	**Ontario**	**Total**
Total	143,393	22,000	53,842	219,235

The current ratio defined as the current assets divided by current liabilities at December 31, 2022, was 4.2, as compared to 3.6 at December 31, 2021.

Transactions with Related Parties

California Nanotechnologies:	**December 31, 2022**	December 31, 2021
i. A loan receivable including accrued interest in the amount of $1,252,469 which is due on demand. Of this amount, $1,261,936 accrues interest at 7.5% per annum. The loan was secured by all the assets of California Nanotechnologies Inc., a subsidiary of California Nano. This loan receivable is fully reserved.	**$ -**	$ -
ii. The Company has provided a guarantee on the bank debt held by California Nanotechnologies Corp. The bank debt consists of a term loan with a balance of $nil ($143,000 at December 31, 2021).		
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 $5,000 each. One grant outstanding matures in 2021, one grant matures in 2022 and two grants mature in 2023.	**10,000**	10,000
Reserve for earned grants	**(28,000)**	(16,000)
Total due from related parties	**$ 2,000**	$ 14,000
Current portion	**-**	-
Long-term portion	**$ 2,000**	$ 14,000

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%	Indirectly 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
Monzite Holding Co. (Delaware, USA)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada, Inc., which was acquired on September 21, 2018. It is a holding company for Monzite Corporation.	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%	Indirectly 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
Marvel Acquisition Co. Ltd. (Ontario, Canada)	100%	Wholly owned subsidiary of Omni-Lite Industries Canada Inc., which is a holding company, and sole shareholder of Designed Precision Castings, Inc	Canada

Outstanding Share Capital

As of December 31, 2022:

- 15,412,564 Common Shares were issued and outstanding, including 1,440,000 shares held in escrow until December 20, 2023, as collateral in connection with the acquisition of DP Cast.
- 1,015,000 Share Options outstanding – 575,000 exercisable
- 1,400,000 Warrants outstanding – 510,000 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 working capital cash, 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 its 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. In December 2021, the Company acquired DP Cast, a private company based in Brampton, Ontario. DP Cast is a prominent investment castings manufacturer and marketer of highly engineered, high-performance, hardware and structural components for aerospace, defense, industrial and energy applications. Revenue and net (loss) income by geographic region are as follows:

	United States	Canada	Total
For the year ended December 31, 2022			
Revenue	**$ 7,130,994**	**$ 4,005,730**	**$ 11,136,724**
Net income loss	**(708,938)**	**(1,844,411)**	**(2,553,349)**
Long term assets	**6,044,758**	**6,711,238**	**12,755,996**
For the year ended December 31, 2021			
Revenue	$ 5,694,790	$ 68,074	$ 5,762,864
Net loss	334,920	(818,017)	(483,097)
Long term assets	7,752,923	6,079,909	13,832,832

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, 2022		December 31, 2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
At FVTPL				
Cash	**$ 1,328,430**	**$ 1,328,430**	$ 2,418,301	$ 2,418,301
At FVOCI				
Investment	**$ 487,704**	**$ 487,704**	$ 426,288	$ 426,288
At Amortized cost				
Accounts receivable	**$ 2,268,442**	**$ 2,268,442**	$ 2,352,189	$ 2,352,189
Due from related parties	**2,000**	**2,000**	14,000	14,000
Accounts payable and accrued liabilities	**1,329,265**	**1,329,265**	1,889,564	1,889,564

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

	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash	$ 1,328,430	$ 1,328,430	$ -	$ -
Investment	487,704	487,704	-	-

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 December 31, 2022, 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, 2021 - $nil).

16. 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.

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 - $4,263).

18. Liquidity Risk – At December 31, 2022, the Company had no borrowings and $1,328,430 of cash in the bank. In February 2022, the Company sold an additional 1,000,000 shares of common stock at CAD$1.25 per share which generated additional cash of approximately $985,000. If the Company should need additional liquidity, it would pursue asset-based lending secured by its assets.

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 years ≤ 4 years	> 5 years	Total
December 31, 2022					
Accounts payable and accrued liabilities	$ 1,329,265	$ -	$ -	$ -	$ 1,329,265
Total	$ 1,329,265	$ -	$ -	$ -	$ 1,329,265
December 31, 2021					
Accounts payable and accrued liabilities	$ 1,889,564	$ -	$ -	$ -	$ 1,889,564
Bank debt	-				-
Total	$ 1,889,564	$ -	$ -	$ -	$ 1,889,564

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 year ended December 31, 2022, the Company had one customer who each accounted for in excess of 10% of revenue for approximately $1,840,900 or 17% 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, accounts receivable and due from related parties. The table below provides an analysis of the age of accounts receivable from invoice date, which are not considered impaired.

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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, 2022	**$ 2,268,442**	**$ 1,297,490**	**$ 605,554**	**$ 234,191**	**$ 131,207**
December 31, 2021	**$ 2,352,189**	**$ 1,541,341**	**$ 602,853**	**$ 119,117**	**$ 88,878**

Board of Directors

The Company currently has five directors.

Forward-Looking Statements

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

Forward-Looking Statements- continued

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.

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