

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim six month period ended June 30, 2014
(in United States Dollars)

Contents

Notice to Reader	2
Condensed Consolidated Financial Statements	
Statements of Financial Position	3
Statements of Income, Comprehensive Income	4
Statements of Changes in Equity	5
Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7 - 26

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated financial statements for the period ended June 30, 2014.

NOTICE TO THE READER OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim condensed consolidated financial statements of Omni-Lite Industries Canada Inc. and the accompanying interim condensed consolidated statements of financial position as at June 30, 2014 and the interim condensed consolidated statements of income/loss, comprehensive income/loss, changes in equity and cash flows for the six month period ended are the responsibility of the Company's management.

These interim condensed consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MNP LLP.

The interim condensed consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these condensed financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

"David F. Grant" signed

David F. Grant
Chief Executive Officer
Cerritos, California, USA
August 29, 2014

"Timothy Wang" signed

Timothy Wang
Chief Financial Officer
Cerritos, California, USA
August 29, 2014

Omni-Lite Industries Canada Inc.
Condensed Consolidated Statements of Financial Position
United States Dollars

As at	Note	June 30, 2014 (unaudited)	December 31, 2013
Assets			
Current			
Cash		\$ 1,907,274	\$ 1,925,038
Accounts receivable	12	1,174,987	1,034,045
Inventory	3	2,450,209	2,456,064
Income taxes receivable		39,899	40,699
Current portion of due from related parties	6	11,375	17,577
Prepaid expenses		144,045	133,296
		<u>5,727,789</u>	<u>5,606,719</u>
Investments	4	792,816	274,802
Property, plant and equipment	5	13,326,358	13,611,764
Due from related parties	6	1,553,042	1,591,631
Deferred tax asset		1,370,557	1,251,557
		<u>\$ 22,770,562</u>	<u>\$ 22,336,473</u>
Liabilities			
Current			
Accounts payable and accrued liabilities	12	\$ 391,942	\$ 541,242
Income taxes payable		1,105	2,366
Current portion of long-term debt	8	100,000	300,000
		<u>493,047</u>	<u>843,608</u>
Deferred tax liability		3,665,921	3,534,971
		<u>4,158,968</u>	<u>4,378,579</u>
Shareholders' Equity			
Share capital	9(b)	8,649,635	8,765,090
Contributed surplus	13	1,670,037	1,638,572
Retained earnings		7,880,388	7,570,036
Accumulated other comprehensive income (loss)		411,534	(15,804)
		<u>18,611,594</u>	<u>17,957,894</u>
		<u>\$ 22,770,562</u>	<u>\$ 22,336,473</u>

On behalf of the Board:

signed "David F. Grant" Director
David F. Grant

signed "Donald J. Kelly" Director
Donald J. Kelly

Omni-Lite Industries Canada Inc.
Condensed Consolidated Statements of Income, and
Comprehensive Income
United States Dollars

(Unaudited – prepared by management)

	Note	For the six month period ended June 30, 2014	For the six month period ended June 30, 2013	For the three month period ended June 30, 2014	For the three month period ended June 30, 2013
Revenue	10	\$ 3,182,790	\$ 2,451,253	\$ 1,809,465	\$ 1,395,314
Cost of goods sold	3	1,321,143	1,069,207	764,849	586,016
Gross margin		1,861,647	1,382,046	1,044,616	809,298
Overhead expenses					
Depreciation		486,499	472,104	244,696	238,613
Foreign exchange loss		1,388	7,454	100	4,970
General and administrative		429,351	429,781	252,636	216,778
Bad debt		20,000	-	-	-
Employee benefits		504,606	442,488	249,429	213,845
Commissions		12,828	8,558	6,930	5,175
Interest on long-term debt	8	3,814	12,033	1,481	5,380
Share-based compensation	13	31,465	42,450	12,115	19,600
Research and product design		6,545	65,897	3,837	19,158
		1,496,496	1,480,765	771,224	723,519
Income (loss) from operations		365,151	(98,719)	273,392	85,779
Other income (expense)					
Interest income		14,088	11,124	7,834	-
Loss on sale of equipment		(56,634)	-	-	-
		(42,546)	11,124	7,834	-
Income (loss) before income taxes		322,605	(87,595)	281,226	(85,779)
Income tax provision (recovery)					
Current		5,655	3,255	2,125	1,900
Deferred		11,950	(166,500)	16,700	(52,600)
		17,605	(163,245)	18,825	(50,700)
Net income		\$ 305,000	\$ 75,650	\$ 262,401	\$ 136,479
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Gain (loss) on available for sale financial assets	4	427,338	(258,746)	170,730	(149,138)
Comprehensive income (loss)		\$ 732,338	\$ (183,096)	\$ 433,131	\$ (12,659)
Income per share - basic	14	\$ 0.03	\$0.01	\$ 0.02	\$ (0.01)
- diluted	14	\$ 0.03	\$0.01	\$ 0.02	\$ (0.01)
Weighted average shares outstanding - basic	14	12,153,302	12,243,408	12,098,547	12,228,208
- diluted	14	12,251,563	12,309,334	12,182,981	12,262,708

Omni-Lite Industries Canada Inc.
Condensed Consolidated Statements of Changes in Equity
United States Dollars
(Unaudited – prepared by management)

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2013		\$ 8,765,090	\$ 1,638,572	\$ 7,570,036	\$ (15,804)	\$ 17,957,894
Repurchase under normal course issuer bid	9(d)	(114,829)	-	5,352	-	(109,477)
Share-based compensation	13	-	31,465	-	-	31,465
Share issue costs	9(b)	(626)	-	-	-	(626)
Net income		-	-	305,000	-	305,000
Available for sale financial assets	4	-	-	-	427,338	427,338
Balance at June 30, 2014		\$ 8,649,635	\$ 1,670,037	\$ 7,880,388	\$ 411,534	\$18,611,594

Omni-Lite Industries Canada Inc.
Condensed Consolidated Statements of Cash Flows
United States Dollars
(Unaudited – prepared by management)

	For the six month period ended Note June 30, 2014	For the six month period ended June 30, 2013	For the three month period ended June 30, 2014	For the three month period ended June 30, 2013
Cash flows from operating activities				
Net income for the period	\$ 305,000	\$ 75,650	\$ 262,401	\$ 136,479
Adjustments for:				
Depreciation	486,499	472,104	244,696	238,613
Deferred taxes	11,950	(166,500)	16,700	(52,600)
Loss on sale of equipment	56,634	-	-	-
Bad debt	3 20,000	-	-	-
Share-based compensation	13 31,465	42,450	12,115	19,600
	911,548	423,704	535,912	342,092
Net change in non-cash working capital items				
Accounts receivable	(140,942)	(47,375)	(347,680)	(2,721)
Income taxes receivable	800	800	1,820	-
Inventory	5,855	(95,135)	63,100	(56,611)
Prepaid expenses	(10,748)	(83,201)	(36,739)	(57,739)
Accounts payable and accrued liabilities	(149,300)	94,808	(81,737)	19,675
Income taxes payable	(1,261)	(4,030)	305	(4,585)
Increase in cash from operations	615,952	289,571	134,981	240,111
Cash flows from financing activities				
Payments from related parties	120,426	85,994	78,858	30,821
Advances to related parties	(95,635)	(316,296)	(26,939)	(159,060)
Repayment of long-term debt	(200,000)	(366,205)	(100,000)	(183,313)
Share issue costs	9(b) (626)	(730)	(457)	(436)
Repurchase of common shares	9(d) (109,477)	(44,355)	(101,235)	(23,476)
Decrease in cash from financing activities	(285,312)	(641,592)	(149,773)	(335,464)
Cash flows from investing activities				
Proceeds from sale of equipment	262,500	-	-	-
Purchase of common shares	(90,676)	-	(90,677)	-
Purchase of equipment	5 (520,228)	(270,182)	(135,066)	(139,668)
Decrease in cash from investing activities	(348,404)	(270,182)	(225,743)	(139,668)
Decrease in cash	(17,764)	(622,203)	(240,535)	(235,021)
Cash, beginning of period	1,925,038	2,745,856	2,147,809	2,358,674
Cash, end of period	\$ 1,907,274	\$ 2,123,653	\$ 1,907,274	\$ 2,123,653
Supplemental Cash Flow Information:				
Interest paid	\$ 3,814	\$ 10,396	\$ 1,481	\$ 5,565
Income taxes paid	6,116	6,485	-	-

Omni-Lite Industries Canada Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited – Prepared by Management)
United States Dollars

For the interim six month period ended June 30, 2014

1. Nature of Operations

Omni-Lite Industries Canada Inc. (“Omni-Lite” or the “Company”) is a public company incorporated under the Laws of the Business Corporations Act of Alberta in 1992. The condensed consolidated financial statements of the Company for the period ended June 30, 2014 include the accounts of the Company and its wholly-owned subsidiaries. The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 29, 2014. Its head office, research and development, and production operations are located at 17210 Edwards Road, Cerritos, California, U.S.A, 90703. An international sales office is located in Barbados. A corporate, registered office is located at 900, 715 – 10th Avenue S.W., Calgary, Alberta T2R 0A8. The Company’s activities consist of developing, producing and marketing specialized metal matrix composite, aluminum, carbon and stainless steel alloy products. These products include components for the sports and recreation, automobile, aerospace, military and commercial industries. Since the most significant portion of the Company’s operations are located in the United States and its functional currency is denominated in United States dollars, these condensed consolidated financial statements are stated in United States dollars.

2. Significant Accounting Policies

These condensed 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 June 30, 2014. The principal accounting policies are set out below.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied to the Company in these condensed consolidated financial statements. Application of the majority of these standards and interpretations is not expected to have a material effect on the condensed consolidated financial statements in the future.

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

(a) Consolidation

These condensed consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Omni-Lite Industries International Inc., Omni-Lite Industries California Inc., Formed Fast International Inc., and Omni-Lite Properties Inc. All significant inter-company balances and transactions have been eliminated on consolidation.

(b) Basis of measurement

These condensed consolidated financial statements have been prepared on a going concern basis, using the historical cost convention except for share based payments and financial assets classified as fair value through profit or loss or available for sale which are measured at fair value. In addition, they have been prepared on an accrual basis of accounting except for cash flow information.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(c) Inventory

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

(d) Revenue recognition

Revenue is recognized when goods are shipped to the customer, all significant contractual obligations have been satisfied, and collection of the resulting receivable is reasonably assured.

(e) Cash

Cash includes short-term, highly liquid investments that mature within nine months of their purchase.

(f) Property, plant and equipment

Property, plant and equipment are carried at deemed cost, 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 assets over their estimated useful lives.

Building	4% declining balance
Production and other equipment	15-30 years straight-line
Computer equipment	30% declining balance
Non-consumable tooling	7 years straight-line
Vehicle	7 years straight-line

The Company reviews the criteria for capitalization and the useful life of its property, plant and equipment on an on-going basis considering changes in circumstances.

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 and 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 net within other income in the condensed consolidated statement of income, and comprehensive income. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

(g) Intangible assets

Patents are recorded at cost and are amortized on a straight-line basis over a period of ten years based on management's analysis of the market and competition. Patents represent accumulated costs and are not intended to reflect present or future values. The recoverability of these amounts is dependent upon future profitable operations.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(h) Impairment of non-financial assets

The Company assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the asset group. 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 or 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 value less costs to sell ("FVLCS") and value in use ("VIU"). FVLCS is the amount obtainable from the sale of an asset or CGU in an arm's length transaction of similar assets or observable market prices, 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.

(i) Provisions

Provisions cover risks resulting from legal disputes and proceedings. In order to determine the amount of the provisions, the facts related to each case, the size of the claim, awards in similar cases, the expected timing of such possible awards, insurance coverage and deductibles and independent expert advice are considered along with assumptions regarding the probability of a successful claim and the range of possible awards. The actual costs can deviate from these estimates.

A provision is recognized in the condensed 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 June 30, 2014 and December 31, 2013 there were no provisions recognized in the condensed consolidated financial statements.

(j) Income taxes

Income tax expense for the period consists of current and deferred tax. Income tax is recognized in the consolidated statement of income, and comprehensive income, except to the extent that it relates to a business combination or items recognized in other comprehensive income ("OCI") or directly in equity.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(j) Income taxes - continued

Taxable income differs from income as reported in the consolidated statement of income, and comprehensive income. 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 condensed 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.

(k) Foreign exchange

These condensed consolidated financial statements have been presented in United States (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 appropriate functional currency at the foreign exchange rate on the date of the transaction with all consequential exchange differences recognized in net income.

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 of other comprehensive income.

(l) Significant accounting estimates and judgments

The preparation of condensed 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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(l) Significant accounting estimates and judgments - continued

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

Judgments

Determining cash generating units ("CGU's")

For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level of separately identified cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs to sell and value in use.

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

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. 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.

Estimates

Valuation of amounts receivables

Amounts receivable are reviewed on a regular basis to estimate recoverability of balances. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

Inventory

The amounts for finished goods inventory is based on standard costs and includes cost allocation estimates.

Share-based payments

The Company uses an option pricing model to determine the fair value of share-based payments. Inputs to the model are subject to various estimates about volatility, interest rates, dividend yields, forfeiture rates and expected life of the units issued. Fair value 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.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(l) Significant accounting estimates and judgments - continued

Depreciation and amortization

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

Transfer pricing

The Company has conducted a study of its internal policies with respect to transfer pricing within the consolidated group. The consolidated income tax provision provided herein has been based on management's best estimate of the pricing that is equivalent to comparative uncontrolled pricing for the same or similar products and is subject to assessment by 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 a possibility that a reassessment can occur.

(m) Share-based compensation plan

The Company provides equity-settled share-based payments in the form of a share option plan to its employees, officers, directors and consultants. The Company accounts for these share options using the fair value method of accounting for share-based compensation expense. Under this method, the associated compensation expense is charged to earnings with a corresponding increase to contributed surplus less an estimated forfeiture rate over each vesting period (tranches) of the options granted. The forfeiture rate is based on past experience of actual forfeitures. Each tranche is treated as a separate share option grant, and subsequently valued at the start of each tranche's vesting period.

Share-based compensation transactions with non-employees are measured at the fair value of the goods or services recovered. 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.

(n) Per share amounts

Basic earnings 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 and warrants are used to purchase common shares at the weighted average market price during the period.

(o) Research and Development expenses

Expenses related to research and development activities that do not meet generally accepted criteria for deferral are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the IAS 38, "Intangible Assets", are capitalized, net of related tax credits and government grants, and are amortized against earnings over the estimated benefit period. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third party consultants.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(p) Segmented information

The Company and its wholly owned subsidiaries are grouped into three geographical segments in the United States, Canada, and Barbados and each are supported by a corporate segment. The three geographical segments share common economic characteristics. The Operating Segments' 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.

(q) Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument. Measurements in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities at "fair value through profit or loss" are measured at fair value with changes in fair value recognized in net income. Financial assets classified "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income ("OCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method of amortization. Transaction costs related to fair value financial assets and liabilities are included in net income when incurred.

Cash and share purchase warrants are designated as "fair value through profit or loss" and are measured at fair value. Accounts receivable and due from related parties are designated as "loans and receivables". Accounts payable and accrued liabilities and long-term debt are designated as "other financial liabilities". Long-term investments are financial instruments classified as "available-for-sale". They are initially recorded at their fair value unless fair value is not readily determinable. Subsequent changes to the market value of the investments are recorded as changes to OCI. Realized gains and losses are recognized in income when the investments are actually disposed of.

Financial instruments measured at fair value on the statement of financial position require classification into one of the following levels of the fair value hierarchy:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices listed in Level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 - Inputs that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Cash and investments are measured at Level 1.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(q) Financial Instruments - continued

A financial asset is assessed at each reporting date to determine whether it is impaired based on objective evidence indicating that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the net present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value and any amounts in OCI are transferred to earnings. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in net income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

(r) New accounting policies

On January 1, 2013, the Company adopted the following new standards and amendments that became effective for annual periods on or after January 1, 2013:

- i. IFRS 10, "Consolidated Financial Statements," supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard had no impact on the amounts recorded in the Company's financial statements.
- ii. IFRS 11, "Joint Arrangements," whereby joint arrangements are classified as either joint operations or joint ventures, each with their own accounting treatment. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard had no impact on the amounts recorded in the Company's financial statements.
- iii. IFRS 12, "Disclosure of Interest in Other Entities," combines the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, and associates as well as unconsolidated structured entities. The adoption of this standard had no impact on the Company's financial statements.
- iv. IFRS 13, "Fair Value Measurement," establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard had no material impact on the Company's financial statements.
- v. IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this amendment had no material impact on the Company's financial statements.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

2. Significant Accounting Policies - continued

(r) New accounting policies - continued

- vi. IAS 1, "Presentation of Financial Statements" was amended to introduce new terminology for the statement of income (loss) and comprehensive income (loss). The amendments required the Company to group other comprehensive income (loss) items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to comprehensive loss or other comprehensive loss.

On January 1, 2014, the Company adopted the following new standards and amendments that became effective for annual periods on or after January 1, 2014:

- i. IAS 36, "Impairment of Assets" was amended to reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarifies the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of this amendment had no material impact on the Company's financial statements.
- ii. IFRS Interpretations Committee ("IFRIC") 21 "Levies" clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified in the relevant legislation, occurs. The adoption of this clarification had no material impact on the Company's financial statements.

(s) Future accounting policies

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact to the Company:

- i. IFRS 2, "Share-based payment" - Annual Improvements to IFRSs 2010-2012 Cycle" was issued in December 2013. The definitions of 'vesting conditions' and 'market condition' were amended and the definitions of 'performance condition' and 'service condition' were added. An entity is required to prospectively apply that amendment to share-based payment transactions for which the grant date is on or after July 1, 2014. The Company will apply the revised standard on share-based payment transactions, if any, made on or after July 1, 2014.
- ii. IFRS 9, "Financial Instruments" - On November 12, 2009, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), which will replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). The standard was to be effective for annual periods beginning on or after January 1, 2015. In February 2014, the IASB tentatively decided the mandatory effective date of the final IFRS 9 would now be January 1, 2018. The final standard is expected in mid-2014. IFRS 9 applies to classification and measurement of financial assets as defined in IAS 39. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

3. Inventory

The major components of inventory are classified as follows:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Raw materials	\$ 445,953	\$ 542,735
Finished goods	2,004,256	1,913,329
	<u>\$ 2,450,209</u>	<u>\$ 2,456,064</u>

The cost of finished goods and raw material inventories recognized as expense and included in cost of goods sold was \$1,321,143 (June 30, 2013 - \$1,069,207). The inventory write-down included in cost of goods sold in the amount of \$31,038 (June 30, 2013 - \$31,385).

4. Investments

As at June 30, 2014, long-term investments consists of an available-for-sale investment in the common shares of a public company. The Company's investments are recorded at the fair value as supported by the market price listed on the TSX Venture Exchange.

	<u>Carrying Amount</u>
Investments at December 31, 2012	\$ 398,374
Loss from market price valuation	(123,572)
Investments at December 31, 2013	\$ 274,802
Purchase 740,741 shares, April 9, 2014	90,676
Gain from market price valuation	427,338
Investments at June 30, 2014	<u>\$ 792,816</u>

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

5. Property, Plant and Equipment

	June 30, 2014				December 31, 2013		
	Additions	Disposals	Cost	Accumulated Depreciation	Additions	Cost	Accumulated Depreciation
Land	\$ -	\$ -	\$ 770,000	\$ -	\$ -	\$ 770,000	\$ -
Building	-	-	1,494,410	615,250	-	1,494,410	597,308
Production and other equipment	265,113	425,000	13,269,334	3,419,243	243,446	13,429,221	3,331,884
Computer equipment	3,784	-	189,826	151,041	34,242	186,042	142,987
Vehicle	-	-	28,400	28,400	-	28,400	28,400
Non consumable tooling	251,331	-	5,397,884	3,609,562	492,017	5,146,553	3,342,283
	\$520,228	425,000	\$21,149,854	\$ 7,823,496	\$769,705	\$21,054,626	\$ 7,442,862
Net book value			\$13,326,358			\$13,611,764	

Equipment not in service not subject to depreciation in the amount of \$1,768,166 (December 31, 2013 - \$1,765,853) is included in production and other equipment.

6. Related Party Transactions

Due from related parties includes advances to a company under common management. An amount of \$1,124,259 (December 31, 2013 - \$1,144,938) is due from California Nanotechnologies Corp. bearing interest at 2% per annum and due on demand. The loan is secured by all the assets of California Nanotechnologies Corp. Additional security for the loan has been provided by David F. Grant, one of the founders, of the California Nanotechnologies Corp.

For the six month period ended June 30, 2014, the Company did not pay the Chief Executive Officer. It is management's estimate that the fair value salary would approximate \$80,000 (June 30, 2013 - \$70,000). Due to the lack of independent evidence with respect to the fair value of these services, this transaction has been recorded at the carrying amount of \$nil.

The Company has outstanding an unsecured interest free loan to one employee in the amount of \$20,000 (December 31, 2013 - \$40,000) related to the acquisition of property with a maturity date in 2017. A previous loan of this type to one previous employee is included in bad debt in the amount of \$20,000 (December 31, 2013 - \$nil). Another employee has received a loan related to the purchase of a hybrid/electric car under the Company's green incentives program in the amount of \$5,000 with \$1,000 forgiven annually for service time and a maturity date in 2018. Other employees have received unsecured interest free loans from the Company with amounts due totalling \$12,413 (December 31, 2013 - \$23,986), with a current portion of \$11,375 (December 31, 2013 - \$11,374), repayable in bi-weekly installments with maturity dates in 2014 and 2015. The Company has issued a loan due on demand to the Chief Executive Officer for \$402,745 (December 31, 2013 - \$400,285) at a 2% interest rate. The loan is secured by the related property.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

6. Related Party Transactions - continued

Significant subsidiaries:

The tables set forth below provide information relative to Omni-Lite Industries Canada Inc.'s significant subsidiaries, including each such entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by Omni-Lite Industries Canada Inc., a brief description of the entity, and the market areas served, if applicable.

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
Omni-Lite Properties Inc. (California USA)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc. which was formed and incorporated on December 26, 2000. It owns the property and significant equipment for the head office.	United States
Omni-Lite Industries International Inc. (Barbados)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc. which was formed and incorporated in Barbados on October 9, 1997. It conducts all international sales in the sports and recreation division.	International
Formed Fast International Inc. (Barbados)	100%	Wholly-owned subsidiary of Omni-Lite Industries Canada Inc. which was formed and incorporated in Barbados on February 24, 1998. It is an investment holding company.	International

7. Compensation of Key Management Personnel

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

	June 30, 2014	June 30, 2013
Short-term benefits	\$ 154,477	\$ 162,485
Share-based compensation	19,315	52,215
	\$ 173,792	\$ 214,700

Key management personnel of the Company include the Chief Executive Officer, President, Vice-president and Chief Financial Officer.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

8. Long-term Debt

	June 30, 2014	December 31, 2013
<p>Effective October 2011, the Company refinanced a long-term primary credit facility (the "Credit Agreement") with total credit facilities of up to \$2,400,000, including a term loan facility in the amount of \$1,200,000 bearing interest at the Prime Rate plus one-quarter of one percent (0.25%), (3.5% effective average interest rate), maturing on September 30, 2014, repayable in monthly principal installments of \$33,333. The Credit Agreement also includes a commercial advance line of up to \$1,200,000 for operating purposes, bearing interest at the Prime Rate plus one-quarter of one percent (0.25%), maturing on September 30, 2014. The available credit line at June 30, 2014 was \$1,200,000 (December 31, 2013 - \$1,200,000). The Credit Agreement is secured by all the accounts receivable, inventory, equipment, and general intangibles of the Company. Under this agreement, the Company has agreed to certain conditions and financial covenant ratios, based on financial results including net worth, current and debt service ratios, and profitability, which have been met. Advances are automatically repayable daily with available funds after clearing operating disbursements.</p>	<p>\$ 100,000</p>	<p>\$ 300,000</p>
<p>Less: current portion</p>	<p><u>(100,000)</u></p>	<p><u>(300,000)</u></p>
	<p><u>\$ -</u></p>	<p><u>\$ -</u></p>

There were no borrowing costs capitalized during the period ended June 30, 2014 (December 31, 2013 – \$nil). The credit facilities of the Company are subject to annual review.

Estimated principal repayments are as detailed below:

2014	\$ 100,000
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Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

9. Share Capital

(a) Authorized
 Unlimited number of common shares with no par value.

(b) Issued

<u>Share capital</u>	<u>Number of Shares</u>	<u>Amount</u>
Total issued and outstanding, December 31, 2012	12,280,632	\$ 8,814,933
Share issuance costs	-	(1,250)
Cancelled on repurchase under normal course issuer bid	(67,700)	(48,593)
Total issued and outstanding, December 31, 2013	12,212,932	\$ 8,765,090
Share issuance costs	-	(626)
Cancelled on repurchase under normal course issuer bid	(160,000)	(114,829)
Total issued and outstanding, June 30, 2014	12,052,932	\$ 8,649,635

(c) Share options

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
Options outstanding at Dec. 31, 2012	594,679	CAD \$0.60 to \$2.00	CAD \$0.99
Options - granted	555,000	CAD \$0.60 to \$0.90	CAD \$0.62
- forfeited	(52,000)	CAD \$0.60 to \$0.90	CAD \$0.63
Options outstanding at Dec. 31, 2013	1,097,679	CAD \$0.60 to \$2.00	CAD \$0.82
Options - granted	100,000	CAD \$0.60 to \$0.90	CAD \$0.77
- expired	(24,333)	CAD \$0.60 to \$0.90	CAD \$0.82
- forfeited	(3,334)	CAD \$0.60 to \$0.90	CAD \$0.70
Options outstanding at June 30, 2014	1,170,012	CAD \$0.60 to \$2.00	CAD \$0.81
Options exercisable at June 30, 2014	483,344	CAD \$0.60 to \$2.00	CAD \$0.95

The weighted average fair value of options granted during the period ended June 30, 2014 was \$0.77 CAD (December 31, 2013 - \$0.62 CAD)

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. The current share option plan was approved by shareholders on October 18, 2013 and notification of acceptance of filing by the TSX Venture Exchange was given on December 19, 2013.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

9. Share Capital - continued

The options that are outstanding at June 30, 2014 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
955,012	CAD \$0.60 to \$0.90	CAD \$0.68	2.89 years
215,000	CAD \$1.38 to \$2.00	CAD \$1.41	2.77 years
1,170,012	CAD \$0.60 to \$2.00	CAD \$0.81	2.87 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
340,012	CAD \$0.60 to \$0.90	CAD \$0.75	0.79 years
143,332	CAD \$1.38 to \$2.00	CAD \$1.41	2.77 years
483,344	CAD \$0.60 to \$2.00	CAD \$0.86	1.32 years

The options that are outstanding at December 31, 2013 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
882,679	CAD \$0.60 to \$0.90	CAD \$0.67	3.07 years
215,000	CAD \$1.38 to \$2.00	CAD \$1.41	3.27 years
1,097,679	CAD \$0.60 to \$2.00	CAD \$0.82	3.11 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
367,679	CAD \$0.60 to \$0.90	CAD \$0.76	1.23 years
71,666	CAD \$1.38 to \$2.00	CAD \$1.41	3.27 years
439,345	CAD \$0.60 to \$2.00	CAD \$0.86	1.56 years

The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2014	December 31, 2013
Risk free interest rate (%)	1.5 – 3.0%	1.5 – 3.0%
Expected life (years)	5	5
Volatility rate (%)	60 – 70%	60 – 70%
Dividend yield (%)	0.00%	0.00%
Forfeiture rate (%)	15.3%	19.7%

In estimating expected stock price volatility at the time of a particular share option grant, the Company relies on observations of historical volatility trends.

(d) Normal course issuer bid

During the period, pursuant to a normal course issuer bid under applicable securities legislation the Company acquired 160,000 (December 31, 2013 – 67,700) of its issued and outstanding common shares. The Company repurchased the common shares for \$109,477 (December 31, 2013 – \$47,071) resulting in a \$114,829 (December 31, 2013 – \$48,593) reduction in share capital and a \$5,352 increase (December 31, 2013 – \$1,522 increase) in retained earnings.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

10. Segmented Information

Geographic Segments:

The Company has its operations and subsidiaries in the United States, Canada and Barbados. The Company allocates its revenues between countries based on the location that has title to the contract. The Company has utilized and reported revenues from products sold based on the Company locations for each of these segments as follows:

June 30, 2014	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	\$ 2,972,204	\$ -	\$ 336,974	\$ (126,388)	\$ 3,182,790
Net income/(loss)	133,478	(23,307)	194,829	-	305,000
June 30, 2013	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	\$ 2,338,276	\$ -	\$ 258,209	\$ (145,232)	\$ 2,451,253
Net income	4,928	(21,284)	92,006	-	75,650

11. Seasonality

Seasonal fluctuations have no material impact on the Company's revenues.

12. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, loans due from related parties, investments, accounts payable and accrued liabilities, and current portion of long-term debt.

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	\$ 1,907,274	\$ 1,907,274	\$ 1,925,038	\$ 1,925,038
Loans and receivable				
Accounts receivable	1,174,987	1,174,987	1,034,045	1,034,045
Due from related parties	1,564,417	1,564,417	1,609,208	1,609,208
Available for sale				
Investments	792,816	792,816	274,802	274,802
Other financial liabilities				
Accounts payable and accrued liabilities	391,942	391,942	541,242	541,242
Current debt	100,000	100,000	300,000	300,000

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

12. 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	\$ 1,907,274	\$ 1,907,274	\$ -	\$ -
Investments	792,816	792,816	-	-

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

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

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

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

Interest rate risk

The Company's revolving line of credit and the two promissory note borrowings are subject to floating rates. 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 June 30, 2014, the increase or decrease in income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$1,000 (December 31, 2013 - \$3,000). The related disclosures regarding these debt instruments are included in Note 8 of these condensed consolidated financial statements.

Foreign currency risk

A significant portion of the Company's operations are located outside of the United States and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates.

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The Company reports in its functional currency, the U.S. dollar. At June 30, 2014, the Company had the following balances denominated in Canadian dollars. The balances have been translated into U.S. dollars in accordance with the Company's foreign exchange accounting policy.

	USD	USD
	June 30, 2014	December 31, 2013
Cash	\$ 3,662	\$ 5,584
Accounts payable	47,078	79,647

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

12. Financial Instruments - continued

Omni-Lite operates with a U.S. dollar functional currency which gives rise to currency exchange rate risk on Omni-Lite's Canadian dollar denominated monetary assets and liabilities, such as Canadian dollar bank accounts and accounts payable, as follows:

	Impact on Net Income
U.S. Dollar Exchange Rate – 10% increase	\$ 4,342
U.S. Dollar Exchange Rate – 10% decrease	(4,342)

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 Corp. This investment is recorded on the statement of financial position at fair value as of the statement of financial position date with changes from the prior period's fair value reported in OCI.

Liquidity Risk

The Company is exposed to liquidity risk due to the borrowings under the credit facilities. This risk is mitigated by complying with the covenants and managing the cash flow by controlling receivables and payables.

The following table provides an analysis of the financial liabilities based on the remaining terms of the liabilities as at June 30, 2014:

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 391,942	\$ -	\$ -	\$ -	\$ 391,942
Current debt	100,000	-	-	-	100,000
Total	\$ 491,942	\$ -	\$ -	\$ -	\$ 491,942

The bank loans may be prepaid in whole or in part at any time without penalty.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

12. Financial Instruments - continued

Credit Risk

The Company manages credit risk by dealing with financially sound customers, based on an evaluation of the customer's financial condition. For the period ended June 30, 2014, the Company was engaged in contracts for products with four (June 30, 2013 – three) customers in excess of 10% of revenue, which accounted for \$2,232,853 (June 30, 2013 - \$1,532,594) or 70% (June 30, 2013 – 62%) of the Company's total revenue. During the same period, no export sales (June 30, 2013 – three) to customers in various international countries (outside of the United States) exceeded 10% (June 30, 2013 – \$241,252, 10%) of the Company's total revenue. The maximum exposure to credit risk is the carrying value of account receivable. The table below provides an analysis of the age of our past due accounts receivables which are not considered impaired.

Total	Current	≤ 30 days	> 30 days ≤ 60 days	60 days ≤ 90 days	> 90 days
\$ 1,174,987	\$ 891,869	\$ 212,355	\$ 70,393	\$ -	\$ 370

13. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	June 30, 2014	December 31, 2013
Balance, beginning of period	\$ 1,638,572	\$ 1,539,667
Share-based compensation	31,465	98,905
Balance, end of period	\$ 1,670,037	\$ 1,638,572

14. Income per Common Share

The basic income per common share is calculated using net income divided by the weighted-average number of common shares outstanding. The diluted income per common share is calculated using net income divided by the weighted-average number of diluted common shares outstanding.

215,000 (June 30, 2013 – 414,333) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended June 30, 2014, because their exercise price was greater than the annual average common share market price for the period. Outstanding options were the only potential dilutive instruments.

Omni-Lite Industries Canada Inc.
Notes to Consolidated Financial Statements
United States Dollars

For the interim six month period ended June 30, 2014

15. 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 to fund expansion and product development. However, given the long cycle time of some of the development projects which can require significant capital investment prior to cash flow generation, it is not unusual for capital expenditures to exceed cash flow from operating activities in any given period. 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.

16. Comparative figures

Certain comparative figures have been reclassified to conform with current period presentation.