

Omni-Lite Industries Canada Inc.
Condensed Consolidated Financial Statements
For the interim six month period ended June 30, 2017
(in United States Dollars)

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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, 2017.

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, 2017 and the interim condensed consolidated statements of income, comprehensive income, 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 28, 2017

"Roger Dent" signed

Roger Dent
Director
Cerritos, California, USA
August 28, 2017

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

As at	Note	June 30, 2017 (unaudited)	December 31, 2016
Assets			
Current			
Cash		\$ 545,110	\$ 476,976
Accounts receivable	11	1,391,926	1,178,813
Inventory	3	2,859,348	2,707,241
Income taxes receivable		53,891	59,594
Current portion of due from related parties	6	2,184	3,064
Prepaid expenses		137,374	161,800
		<u>4,989,833</u>	<u>4,587,488</u>
Investment	4	645,453	355,910
Equipment deposits		-	10,277
Property, plant and equipment	5	14,354,422	14,321,913
Due from related parties	6	1,458,585	1,455,304
Deferred tax asset		936,608	936,608
		<u>\$ 22,384,901</u>	<u>\$ 21,667,500</u>
Liabilities			
Current			
Accounts payable and accrued liabilities	11	\$ 329,821	\$ 354,609
Deferred tax liability		3,168,108	3,371,807
		<u>3,497,929</u>	<u>3,726,416</u>
Shareholders' Equity			
Share capital	9(b)	7,503,223	7,503,223
Contributed surplus	12	1,698,601	1,697,529
Retained earnings		9,455,706	8,765,705
Accumulated other comprehensive income (loss)		229,442	(25,372)
		<u>18,886,972</u>	<u>17,941,084</u>
		<u>\$ 22,384,901</u>	<u>\$ 21,667,500</u>

On behalf of the Board:

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

signed "Roger Dent" Director
Roger Dent

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, 2017	For the six month period ended June 30, 2016	For the three month period ended June 30, 2017	For the three month period ended June 30, 2016
Revenue	10	\$ 3,479,191	\$ 3,595,132	\$ 1,754,952	\$ 2,110,643
Cost of goods sold	3	1,389,056	1,503,611	722,388	910,289
Gross margin		2,090,135	2,091,521	1,032,564	1,200,354
Overhead expenses					
Depreciation		540,356	521,490	270,043	253,966
Foreign exchange (gain) loss		(1,400)	629	(2,512)	419
General and administrative		498,796	578,052	264,241	319,775
Employee benefits		531,754	562,371	245,912	272,445
Commissions		3,875	5,541	1,698	3,278
Share-based compensation	12	27,338	76,451	14,882	40,995
Research and product design		14,712	9,375	4,698	4,697
		1,615,431	1,753,909	798,962	895,575
Income from operations		474,704	337,612	233,602	304,779
Other income					
Interest income		14,287	14,279	7,204	7,117
Income before income taxes		488,991	351,891	240,806	311,896
Income tax provision (recovery)					
Current		2,690	3,425	1,000	2,250
Deferred		(203,700)	(232,700)	(82,000)	(101,300)
		(201,010)	(229,275)	(81,000)	(99,050)
Net income		\$ 690,001	\$ 581,166	\$ 321,806	\$ 410,946
Other comprehensive income (loss)					
Gain on available for sale financial assets	4	254,815	13,426	243,391	134,520
Comprehensive income		\$ 944,816	\$ 594,592	\$ 565,197	\$ 545,466
Income per share - basic	13	\$ 0.07	\$ 0.05	\$ 0.03	\$ 0.04
- diluted	13	\$ 0.07	\$ 0.05	\$ 0.03	\$ 0.04
Weighted average shares outstanding					
basic	13	10,369,120	11,189,515	10,369,120	11,120,441
diluted	13	10,621,994	11,619,726	10,656,690	11,383,544

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, 2016		\$ 7,503,223	\$ 1,697,529	\$ 8,765,705	\$ (25,373)	\$ 17,941,084
Cash settled options	9(c)	-	(26,266)	-	-	(26,266)
Share-based compensation	12	-	27,338	-	-	27,338
Net income		-	-	690,001	-	690,001
Available for sale financial assets	4	-	-	-	254,815	254,815
Balance at June 30 , 2017		\$ 7,503,223	\$ 1,698,601	\$ 9,455,706	\$ 229,442	\$18,886,972

Omni-Lite Industries Canada Inc.
Condensed Consolidated Statements of Cash Flows
United States Dollars

(Unaudited – prepared by management)

	Note	For the six month period ended June 30, 2017	For the six month period ended June 30, 2016	For the three month period ended June 30, 2017	For the three month period ended June 30, 2016
Cash flows from operating activities					
Net income for the period		\$ 690,001	\$ 581,166	\$ 321,806	\$ 410,946
Adjustments for:					
Depreciation		540,356	521,490	270,043	253,966
Deferred taxes		(203,700)	(232,700)	(82,000)	(101,300)
Share-based compensation	12	27,338	76,451	14,882	40,995
		<u>1,053,995</u>	<u>946,407</u>	<u>524,731</u>	<u>604,607</u>
Net change in non-cash working capital items					
Accounts receivable		(213,113)	(405,650)	(9,081)	(466,460)
Income taxes receivable		5,703	(7,197)	759	(2,411)
Inventory		(152,107)	(112,566)	(213,466)	(96,942)
Prepaid expenses		24,426	4,107	7,959	21,951
Accounts payable and accrued liabilities		(24,788)	281,746	(95,773)	190,320
		<u>694,116</u>	<u>706,847</u>	<u>215,129</u>	<u>251,065</u>
Cash flows from financing activities					
Payments from related parties		4,676	17,617	3,816	13,358
Advances to related parties		(7,076)	(3,959)	(2,149)	(1,957)
Cash settled options		(26,266)	(17,435)	(26,266)	(17,435)
Issue of common shares	9(b)	-	34,968	-	32,820
Repurchase of common shares	9(d)	-	(425,195)	-	(118,990)
		<u>(28,666)</u>	<u>(394,004)</u>	<u>(24,599)</u>	<u>(92,204)</u>
Cash flows from investing activities					
Purchase of common shares		(34,728)	-	(34,728)	-
Purchase of equipment	5	(562,588)	(545,299)	(230,227)	(151,594)
		<u>(597,316)</u>	<u>(545,299)</u>	<u>(264,955)</u>	<u>(151,594)</u>
Increase (decrease) in cash					
		<u>68,134</u>	<u>(232,456)</u>	<u>(74,425)</u>	<u>7,267</u>
Cash, beginning of period					
		<u>476,976</u>	<u>1,051,614</u>	<u>619,535</u>	<u>811,891</u>
Cash, end of period					
		<u>\$ 545,110</u>	<u>\$ 819,158</u>	<u>\$ 545,110</u>	<u>\$ 819,158</u>
Supplemental Cash Flow Information:					
Income taxes paid		\$ 7,058	\$ 8,973	\$ -	\$ -

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, 2017

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 condensed consolidated financial statements of the Company for the period ended June 30, 2017 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 28, 2017. 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 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 are located in the United States and its functional currency is denominated in United States dollars, these consolidated financial statements are stated in United States dollars. The Company is listed for trading on the TSX Venture Exchange under the symbol OML and the OTCQX under the symbol OLNCF.

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, 2017. The principal accounting policies are set out below.

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, 2017

2. Significant Accounting Policies - continued

(c) Inventory

Inventory consists of raw materials and finished goods. Inventory is carried at the lower of weighted average actual costs (including materials, labour and allocated overhead) and net realizable value. Finished goods inventory is recorded at weighted average 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 twelve months of 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 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.

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

For the interim six month period ended June 30, 2017

2. Significant Accounting Policies - continued

(g) 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, 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 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 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.

(h) Provisions

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, 2017 and December 31, 2016 there were no provisions recognized in the condensed consolidated financial statements.

(i) Income taxes

Income tax expense for the year 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, 2017

2. Significant Accounting Policies - continued

(i) 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.

(j) 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.

(k) 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, 2017

2. Significant Accounting Policies - continued

(k) 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 CGU's

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.

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 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.

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

For the interim six month period ended June 30, 2017

2. Significant Accounting Policies - continued

(k) Significant accounting estimates and judgments - continued

Depreciation

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 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.

(l) 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 graded vesting method of accounting for share-based compensation expense. Under this method, the associated compensation expense is charged to the consolidated statement of income and comprehensive income 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.

(m) 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 are used to purchase common shares at the weighted average market price during the period.

(n) 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, 2017

2. Significant Accounting Policies - continued

(o) 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.

(p) 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."

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 as "available-for-sale" are measured at fair value, with changes in fair value recognized in OCI. Transaction costs related to financial assets and liabilities recorded at fair value are included in net income when incurred. Financial assets classified as "held-to-maturity", "loans and receivables" and financial liabilities classified as "other financial liabilities" are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest method.

Cash is designated as "fair value through profit or loss." 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". Investments are financial instruments classified as "available-for-sale".

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, 2017

2. Significant Accounting Policies - continued

(p) 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.

(q) New accounting policies

For the six months ended June 30, 2017, the Company did not adopt any new IFRS standards.

(r) Future accounting policies

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces International Accounting Standard ("IAS") 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on its consolidated financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments". The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on its consolidated financial statements.

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

For the interim six month period ended June 30, 2017

2. Significant Accounting Policies - continued

(r) Future accounting policies

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on its consolidated financial statements.

3. Inventory

The major components of inventory are classified as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$ 743,698	\$ 547,105
Finished goods	2,115,650	2,160,136
	<u>\$ 2,859,348</u>	<u>\$ 2,707,241</u>

The cost of finished goods and raw material inventories recognized as expense and included in cost of goods sold was \$1,389,056 (June 30, 2016 - \$1,503,611).

4. Investments

As at June 30, 2017, long-term investment 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, 2015	\$ 203,377
Loss from market price valuation	152,533
Investments at December 31, 2016	\$ 355,910
Purchase of common shares	34,728
Gain from market price valuation	254,815
Investments at June 30, 2017	\$ 645,453

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

For the interim six month period ended June 30, 2017

5. Property, Plant and Equipment

	Land	Building	Production and other equipment	Computer equipment	Vehicle	Non-consumable tooling	Totals
Cost							
At December 31, 2015	770,000	1,500,360	14,795,769	206,868	28,400	6,223,388	23,524,785
Additions	-	270,684	256,950	3,873	-	602,700	1,134,207
At December 31, 2016	770,000	1,771,044	15,052,719	210,741	28,400	6,826,088	24,658,992
Additions	-	108,364	175,773	12,577	-	276,153	572,867
At June 30, 2017	770,000	1,879,408	15,228,492	223,318	28,400	7,102,241	25,231,859
Accumulated Depreciation							
At December 31, 2015	-	667,504	4,008,881	179,897	28,400	4,408,290	9,292,972
Depreciation	-	33,315	451,781	11,990	-	547,021	1,044,107
At December 31, 2016	-	700,819	4,460,662	191,887	28,400	4,955,311	10,337,079
Depreciation	-	16,058	244,490	7,530	-	272,280	540,358
At June 30, 2017	-	716,877	4,705,152	199,417	28,400	5,227,591	10,877,437
Net Book Value							
At December 31, 2016	770,000	1,070,225	10,592,057	18,854	-	1,870,777	14,321,913
At June 30, 2017	770,000	1,162,531	10,523,340	23,901	-	1,874,650	14,354,422

Equipment not in service and not subject to depreciation in the amount of \$1,194,968 (December 31, 2016 - \$1,150,088) is included in production and other equipment.

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6. Related Party Transactions

Due from related parties includes advances to a company under common management. An amount of \$1,048,656 (December 31, 2016 - \$1,048,656) is due from California Nanotechnologies Inc. bearing interest at 2% per annum and due on demand. The loan is secured by all the assets of California Nanotechnologies Inc. Additional security for the loan has been provided by one of the founders and a current member of the board of directors of the California Nanotechnologies Corp. In September, 2016, the Company guaranteed a long-term credit facility with an advance line in the amount of \$250,000, increasing to \$800,000 in February 2017. At June 30, 2017, the credit line balance was \$497,000 (December 31, 2016 - \$40,000).

For the six month period ended June 30, 2017, 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, 2016 - \$80,000). 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.

Three employees received a grant related to the purchase of a hybrid/electric car under the Company's *Greenhouse Gas Reduction Incentives for Employees* program in the amount of \$5,000. Two current employees received unsecured interest free loans from the Company with amounts due totalling \$2,184 (December 31, 2016 - \$3,860), with a current portion of \$2,184 (December 31, 2016 - 3,064), with maturity dates in 2017. The Company has issued a loan due on demand to the Chief Executive Officer for \$394,929 (December 31, 2016 - \$390,852) at a 2% interest rate. The loan is secured by the Chief Executive Officer's related residential property.

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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. 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
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 February 8, 2005. 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, 2017	June 30, 2016
Short-term benefits	\$ 126,632	\$ 167,287
Share-based compensation	5,067	18,084
	\$ 131,699	\$ 185,371

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

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8. Long-term Debt

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%), (4.00% effective average interest rate), maturing on May 31, 2018, repayable in monthly principal installments of \$33,333, paid in full on October 23, 2014. 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 May 31, 2018. The available credit line at March 31, 2017 was \$1,200,000 (December 31, 2016 - \$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.

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, 2015	11,411,041	\$ 8,249,928
Shares issued upon option exercise	103,279	81,142
Cancelled on repurchase under normal course issuer bid	(1,145,200)	(827,847)
Total issued and outstanding, December 31, 2016 & June 30, 2017	10,369,120	\$ 7,503,223

(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 December 31, 2015	1,048,335	CAD \$0.60 to \$2.00	CAD \$1.03
Options - granted	457,100	CAD \$1.35 to \$1.98	CAD \$1.53
- expired	(103,279)	CAD \$0.60 to \$0.90	CAD \$0.62
- forfeited	(356,668)	CAD \$0.60 to \$1.45	CAD \$1.40
Options outstanding at December 31, 2016	1,045,488	CAD \$0.60 to \$2.00	CAD \$1.15
Options - granted	208,000	CAD \$1.35 to \$1.98	CAD \$1.85
- expired	(150,000)	CAD \$1.38 to \$2.00	CAD \$1.42
- forfeited	(83,334)	CAD \$0.60 to \$1.45	CAD \$0.66
Options outstanding at June 30, 2017	1,020,154	CAD \$0.60 to \$2.00	CAD \$1.29
Options exercisable at June 30, 2017	418,388	CAD \$0.60 to \$2.00	CAD \$0.84

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9. Share Capital - continued

The weighted average fair value of options granted during the period ended June 30, 2017 was \$1.85 CAD (December 31, 2016 - \$1.53 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 November 17, 2016 and notification of acceptance of filing by the TSX Venture Exchange was given on February 14, 2017.

The options that are outstanding at June 30, 2017 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
298,388	CAD \$0.60 to \$0.90	CAD \$0.63	0.95 years
180,000	CAD \$0.91 to \$1.37	CAD \$1.35	2.95 years
541,766	CAD \$1.38 to \$2.00	CAD \$1.63	4.30 years
1,020,154	CAD \$0.60 to \$2.00	CAD \$1.29	3.08 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
298,388	CAD \$0.60 to \$0.90	CAD \$0.63	0.95 years
120,000	CAD \$0.91 to \$1.37	CAD \$1.35	2.95 years
418,388	CAD \$0.60 to \$2.00	CAD \$0.84	1.52 years

The options that are outstanding at December 31, 2016 are summarized as follows:

Options Outstanding	Option price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
381,722	CAD \$0.60 to \$0.90	CAD \$0.64	1.48 years
180,000	CAD \$0.91 to \$1.37	CAD \$1.35	3.45 years
483,766	CAD \$1.38 to \$2.00	CAD \$1.47	3.16 years
1,045,488	CAD \$0.60 to \$2.00	CAD \$1.15	2.22 years

Number of Options Currently Vested	Option price	Weighted Average Exercise Price of Options Currently Exercisable	Weighted Average Remaining Contractual Life
365,055	CAD \$0.60 to \$0.90	CAD \$0.63	1.43 years
60,000	CAD \$0.91 to \$1.37	CAD \$1.35	3.45 years
145,000	CAD \$1.38 to \$2.00	CAD \$1.41	0.26 years
570,055	CAD \$0.60 to \$2.00	CAD \$0.90	1.35 years

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9. Share Capital - continued

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

	June 30, 2017	December 31, 2016
Risk free interest rate (%)	0.5 – 0.7%	0.5 – 0.7%
Expected life (years)	5	5
Volatility rate (%)	50 – 70%	50 – 70%
Dividend yield (%)	0.00%	0.00%
Forfeiture rate (%)	12.3%	12.3%

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 none (December 31, 2016 – 1,145,200) of its issued and outstanding common shares. The Company did not repurchase any common shares (December 31, 2016 – \$1,450,745) resulting in no (December 31, 2016 – \$827,847) reduction in share capital and no decrease (December 31, 2016 – \$622,898) in retained earnings.

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 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, 2017	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	\$ 3,428,113	\$ -	\$ 135,678	\$ (84,600)	\$ 3,479,191
Net income	682,738	(29,820)	37,083	-	690,001
June 30, 2016	United States	Canada	Barbados	Inter-corporate elimination	Total
Revenue	\$ 3,514,527	\$ -	\$ 161,525	\$ (80,920)	\$ 3,595,132
Net income (loss)	592,834	(63,664)	51,996	-	581,166

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11. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, loans due from related parties, investment, accounts payable and accrued liabilities.

	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
At fair value through profit or loss				
Cash	\$ 579,838	\$ 579,838	\$ 476,976	\$ 476,976
Loans and receivable				
Accounts receivable	1,391,926	1,391,926	1,178,813	1,178,813
Due from related parties	1,460,769	1,460,769	1,458,368	1,458,368
Available for sale				
Investment	606,220	606,220	355,910	355,910
Other financial liabilities				
Accounts payable and accrued liabilities	329,821	329,821	354,608	354,608

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

	Total	Level 1	Level 2	Level 3
Assets				
Cash	\$ 579,838	\$ 579,838	\$ -	\$ -
Investment	606,220	606,220	-	-

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.

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11. Financial Instruments - continued

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, 2017, 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 June 30, 2017	USD December 31, 2016
Cash	\$ 28,521	\$ 6,725
Accounts payable	32,342	73,904

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	\$ (382)
U.S. Dollar Exchange Rate – 10% decrease	382

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 condensed consolidated statement of financial position at fair value as of the statement of financial position date with changes from the prior year's fair value reported in OCI. A change in the price of the investment would have an impact of \$6,455 (December 2016 - \$3,559).

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, 2017:

	≤ 1 year	> 1 year ≤ 3 years	> 3 year ≤ 4 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 329,821	\$ -	\$ -	\$ -	\$ 329,821
Total	\$ 329,821	\$ -	\$ -	\$ -	\$ 329,821

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11. 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, 2017, the Company was engaged in contracts for products with four (June 30, 2016 – five) customers in excess of 10% of revenue, which accounted for \$2,619,149 (June 30, 2016 - \$2,982,904) or 75% (June 30, 2016 – 83%) of the Company's total revenue. During the same period, there were no export sales (June 30, 2016 – nil) to customers in various international countries in excess of 10% of 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
June 30, 2017	\$ 1,391,926	\$ 970,719	\$ 189,160	\$ 231,597	\$ -	\$ 450
December 31, 2016	1,178,813	900,239	192,642	59,710	21,441	4,781

12. Contributed Surplus

The following is a continuity schedule of contributed surplus:

	June 30, 2017	December 31, 2016
Balance, beginning of period	\$ 1,697,529	\$ 1,653,558
Shares issued upon option exercise	-	(31,884)
Shares forfeited	(26,266)	(17,435)
Share-based compensation	27,338	93,290
Balance, end of period	\$ 1,698,601	\$ 1,697,529

13. 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.

285,100 (June 30, 2016 – 150,000) options were excluded in calculating the weighted-average number of diluted common shares outstanding for the period ended June 30, 2017, 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.

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14. Capital Disclosures

The objective of 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 the expansion and product development. However, given the long cycle time of some of the development projects which 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.